



## Instructions for Form 1065-B

### U.S. Return of Income for Electing Large Partnerships

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

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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.

### Unresolved Tax Issues

If the partnership has attempted to deal with an IRS problem unsuccessfully, it should contact the Taxpayer Advocate. The Taxpayer Advocate independently represents the partnership's interests and concerns within the IRS by protecting its rights and resolving problems that have not been fixed through normal channels.

While the Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that the partnership's case is given a complete and impartial review.

The partnership's assigned personal advocate will listen to its point of view and will work with the partnership to address its concerns. The partnership can expect the advocate to provide:

- A "fresh look" at a new or on-going problem.
- Timely acknowledgement.
- The name and phone number of the individual assigned to its case.
- Updates on progress.
- Timeframes for action.
- Speedy resolution.
- Courteous service.

When contacting the Taxpayer Advocate, the partnership should provide the following information:

- The partnership's name, address, and employer identification number.
- The name and telephone number of an authorized contact person and the hours he or she can be reached.
- The type of tax return and year(s) involved.
- A detailed description of the problem.
- Previous attempts to solve the problem and the office that had been contacted.
- A description of the hardship the partnership is facing (if applicable).

The partnership may contact a Taxpayer Advocate by calling a toll-free number, **1-877-777-4778**. Persons who have access to TTY/TDD equipment may call 1-800-829-4059 and ask for the Taxpayer Advocate. If the partnership prefers, it may call, write, or fax the Taxpayer Advocate office in its area. See **Pub. 1546**, The Taxpayer Advocate

Service of the IRS, for a list of addresses and fax numbers.

## How To Get Forms and Publications

### Personal Computer

You can access the IRS Web Site 24 hours a day, 7 days a week at [www.irs.gov](http://www.irs.gov) to:

- Download forms, instructions, and publications.
- See answers to frequently asked tax questions.
- Search publications on-line by topic or keyword.
- Send us comments or request help by e-mail.
- Sign up to receive local and national tax news by e-mail.

You can also reach us using file transfer protocol at [ftp.irs.gov](ftp://ftp.irs.gov).

### CD-ROM

Order **Pub. 1796**, Federal Tax Products on CD-ROM, and get:

- Current year forms, instructions, and publications.
- Prior year forms, instructions, and publications.
- Frequently requested tax forms that may be filled in electronically, printed out for submission, and saved for recordkeeping.
- The Internal Revenue Bulletin.

Buy the CD-ROM on the Internet at [www.irs.gov/cdorders](http://www.irs.gov/cdorders) from the National Technical Information Service (NTIS) for \$21 (no handling fee) or call **1-877-CDFORMS** (1-877-233-6767) toll free to buy the CD-ROM for \$21 (plus a \$5 handling fee).

### By Phone and In Person

You can order forms and publications 24 hours a day, 7 days a week, by calling **1-800-TAX-FORM** (1-800-829-3676). You can also get most forms and publications at your local IRS office.

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## General Instructions

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### Purpose of Form

Form 1065-B is an information return used to report the income, deductions, gains, losses, etc., from the operation of an electing large partnership (as defined in section 775). An electing large partnership may be required to pay certain taxes, such as recapture of the investment credit, but generally it "passes through" any profits or losses to its partners. Partners must include these partnership items on their tax returns.

A regular partnership is required to separately report to each partner the partner's distributive share of any item of

income, gain, loss, deduction, or credit that if separately taken into account by any partner would result in an income tax liability for that partner different from that which would result if the item was not taken into account separately. Unlike a regular partnership, an electing large partnership combines most items at the partnership level and passes through net amounts to partners. These electing large partnership rules override the regular partnership tax rules to the extent they are inconsistent with the regular partnership tax rules.

### Electing Large Partnership Status

A partnership chooses electing large partnership status by filing Form 1065-B instead of Form 1065. The election applies to the tax year for which it was made and all later tax years and cannot be revoked without IRS consent.

To make the election, the partnership must have had 100 or more partners during the **preceding** tax year. Thus, a partnership cannot make the election for its first tax year. The number of partners is determined by counting only persons directly holding partnership interests, including persons holding through nominees. Service partners are not counted as partners for this purpose. Service partners are those partners who perform substantial services in connection with the partnership's activities or who have performed such services in the past.

Service partnerships are not eligible to make the election if substantially all of the partners are:

- Individuals performing substantial services in connection with the partnership's activities.
- Personal service corporations with the owner-employees performing the services.
- Retired partners who had performed the services.
- Spouses of partners performing or who had performed the services.

In addition, commodity partnerships are not eligible to make the election. Commodity partnerships have as their principal activity the buying and selling of commodities (other than inventory described in section 1221(a)(1)) or options, futures, or forwards relating to commodities.

Once a partnership has made an election by filing Form 1065-B, this treatment on the return will bind the partnership and all of its partners. The IRS, however, is not bound by the treatment on the return. To the extent provided in future regulations, a partnership may cease to be treated as an electing large partnership for a tax year in which the number of its partners falls below 100.

## 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.

### 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 either 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.

## Termination of the Partnership

An electing large partnership terminates when 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. Unlike other partnerships, an electing large partnership does not terminate on the sale or exchange of 50% or more of the partnership interests within a 12-month period.

The partnership's tax year ends on the date of termination which is the date the partnership winds up its affairs.

Special rules apply in the case of a merger, consolidation, or division of a partnership. See Regulations section 1.708-1(b)(2) for details.

## When To File

Generally, a domestic partnership must file Form 1065-B by the 15th day of the 4th month following the date its tax year ended as shown at the top of Form 1065-B. 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. If the due date falls on a Saturday, Sunday, or legal holiday, file by the next business day.

**Caution:** Unlike regular partnerships, an electing large partnership is required to furnish Schedules K-1 to its partners by the first March 15 following the close of the partnership's tax year.

## Private Delivery Services

The partnership can use certain private delivery services designated by the IRS to meet the "timely mailing as timely filing/paying" rule for Form 1065-B. The most

recent list of designated private delivery services was published by the IRS in October 2001. The list includes only the following:

- Airborne Express (Airborne): Overnight Air Express Service, Next Afternoon Service, Second Day Service.
- DHL Worldwide Express (DHL): DHL "Same Day" Service, DHL USA Overnight.
- Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2Day.
- 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.

## Extension

If you need more time to file a partnership return, file **Form 8736**, Application for Automatic Extension of Time To File U.S. Return for a Partnership, REMIC, or for Certain Trusts, for an automatic 3-month extension. File Form 8736 by the regular due date of the partnership return. The automatic 3-month extension period includes any 2-month extension granted to partnerships that keep their records and books of account outside the United States and Puerto Rico.

If, after you have filed Form 8736, you still need more time to file the partnership return, file **Form 8800**, Application for Additional Extension of Time To File U.S. Return for a Partnership, REMIC, or for Certain Trusts, for an additional extension of up to 3 months. The partnership must provide a full explanation of the reasons for requesting the extension in order to get this additional extension. Form 8800 must be filed by the extended due date of the partnership return.

## Period Covered

Form 1065-B is an information return for calendar year 2001 and fiscal years beginning in 2001 and ending in 2002. If the return is for a fiscal year or a short tax year, fill in the tax year space at the top of the form.

## Where To File

**Note:** For 2001, Form 1065-B cannot be filed electronically or on magnetic media.

File Form 1065-B with the Internal Revenue Service Center, Ogden, UT 84201.

## Who Must Sign

### General Partner or LLC Member

Form 1065-B is not considered to be a return unless it is signed. One general

partner or LLC member must sign the return. If a receiver, trustee in bankruptcy, or assignee controls the organization's property or business, that person must sign the return.

## Paid Preparer's Information

If a partner or an employee of the partnership completes Form 1065-B, the paid preparer's space should remain blank. In addition, anyone who prepares Form 1065-B 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, by hand, in the space provided for the preparer's signature. Signature stamps or labels are not acceptable.
- 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.

## Paid Preparer Authorization

If the partnership wants to allow the paid preparer to discuss its 2001 Form 1065-B 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 that the partnership has shared with the preparer about math errors and return preparation. The notices will not be sent to the preparer.

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 end no later than the due date (excluding extensions) for filing the 2002 return.

## Interest and Penalties

### Interest

Interest is charged on taxes not paid by the due date, even if an extension of time to file is granted. Interest is also charged from the due date (including extensions) to the date of payment on the failure to file penalty, the accuracy-related penalty, and the fraud penalty. The interest charged is figured at a rate determined under section 6621.

### 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. If no tax is due, the penalty is \$50 for each month or part of a month (for a maximum of 5 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. If tax is due, the penalty is the amount stated above plus 5% of the unpaid tax for each month or part of a month the return is late, up to a maximum of 25% of the unpaid tax. If the return is more than 60 days late, the minimum penalty is \$100 or the balance of the tax due on the return, whichever is smaller.

### Late Payment of Tax

A partnership that does not pay the tax when due generally may have to pay a penalty of  $\frac{1}{2}$  of 1% a month or part of a month for each month the tax is not paid, up to a maximum of 25%. The penalty is imposed on the net amount due. The penalty will not be imposed if the partnership can show that failure to pay on time was due to reasonable cause.

### 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 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

Figure ordinary income using the method of accounting regularly used in keeping the partnership's books and records. Generally, permissible methods include:

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

In all cases, the method used must clearly reflect income. Generally, if inventories are required, the accrual method must be used for sales and purchases of merchandise. However, qualifying taxpayers and eligible businesses of qualifying small business taxpayers are excepted from using the 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 18.

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.

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

- All the events have occurred that fix the right to receive the income which is the earliest of the date: **(a)** the required performance takes place, **(b)** payment is due, or **(c)** payment is received, and
- 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 liability have occurred,
- The amount of the liability can be figured with reasonable accuracy, and
- Economic performance takes place with respect to the expense.

There are exceptions to the economic performance rule for certain items, including recurring expenses. See section 461(h) and the related regulations for the rules for determining when economic performance takes place.

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 for general rules on long-term contracts.

### 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. It may also have to make an adjustment to prevent amounts of income or expense from being duplicated or omitted. This is called a section 481(a) adjustment, which is taken into account over a period not to exceed 4 years.

**Example.** The partnership changes to the cash method of accounting. It accrued sales in 2000 for which it received payment in 2001. It must report those sales in both years as a result of changing its accounting method and must make a section 481(a) adjustment to prevent duplication of income.

See Rev. Proc. 99-49, 1999-2 C.B. 725, to figure the amount of a section 481(a) adjustment. Include any positive section 481(a) adjustment on page 1, line 10. If the section 481(a) adjustment is negative, report it on Form 1065-B, line 23. For more information, see **Pub. 538**, Accounting Periods and Methods.

### Mark-to-Market Accounting Method for Dealers in Securities

Generally, 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 and the related regulations.

**Dealers in commodities and traders in securities and commodities** may 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. The statement must be filed by the due date (not including extensions) of the partnership 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, 1999-1 C.B. 503, and sections 475(e) and (f).

## 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.
4. Some other tax year, if:
  - The partnership can establish that there is a business purpose for the tax year (see Rev. Proc. 87-32, 1987-2 C.B. 396); or
  - The tax year is a "grandfathered" year (see Rev. Proc. 87-32); or
  - 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-B for the short tax year, "SECTION 444 ELECTION TERMINATED."

To change an accounting period, see Pub. 538 and **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.*

Instructions for Form 1065-B

## Rounding Off to Whole Dollars

You may round off cents to whole dollars on your return and accompanying schedules. To do so, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next higher dollar.

## 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. 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. It also must keep records that verify its 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.

## Administrative Adjustment Requests

To correct an error on a Form 1065-B already filed, file **Form 8082**, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR). Generally, an adjustment to a partnership item requested on Form 8082 will flow through to the partners and be taken into account in determining the amount of the same item for the partnership tax year in which the IRS allows the adjustment. If the income, deductions, credits, or other information provided to any partner on Schedule K-1 are incorrect under section 704 in the partner's distributive share of any partnership item shown on Form 1065-B, file an amended Schedule K-1 (Form 1065-B) for that partner with the Form 8082. Also give a copy of the amended Schedule K-1 to that partner.

See the Form 8082 instructions for details on how to file the amended Form 1065-B.

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

• **Forms W-2** and **W-3**, Wage and Tax Statement; and Transmittal of Wage and Tax Statements. Use these forms to report wages, tips, other compensation,


and withheld income, social security and Medicare taxes for employees.

• **Form 720**, Quarterly Federal Excise Tax Return. Use Form 720 to report environmental excise taxes, communications and air transportation taxes, fuel taxes, luxury tax on passenger vehicles, manufacturers' taxes, ship passenger tax, and certain other excise taxes.

• **Form 940** or **Form 940-EZ**, Employer's Annual Federal Unemployment (FUTA) Tax Return. The partnership may be liable for FUTA tax and may have to file Form 940 or Form 940-EZ if it paid wages of \$1,500 or more in any calendar quarter during the calendar year (or the preceding calendar year) or one or more employees worked for the partnership for some part of a day in any 20 different weeks during the calendar year (or the preceding calendar year).

• **Form 941**, Employer's Quarterly Federal Tax Return. Employers must file this form quarterly to report income tax withheld on wages and employer and employee social security and Medicare taxes. Agricultural employers must file **Form 943**, Employer's Annual Tax Return for Agricultural Employees, instead of Form 941, to report income tax withheld and employer and employee social security and Medicare taxes on farmworkers.

• **Form 945**, Annual Return of Withheld Federal Income Tax. Use this form to report income tax withheld from nonpayroll payments, including pensions, annuities, IRAs, gambling winnings, and backup withholding.

 See **Trust Fund Recovery Penalty** on page 4.

• **Forms 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. Use these forms to 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 (a) the date on which Schedule K-1 is sent to that partner or (b) the 15th day of the 3rd month after the end of the partnership's tax year. For more information, see sections 1441 and 1442 and **Pub. 515**, Withholding of Tax on Nonresident Aliens and Foreign Corporations.

- **Form 1096**, Annual Summary and Transmittal of U.S. Information Returns.
- **Form 1098**, Mortgage Interest Statement. Use this form to report the receipt from any individual of \$600 or more of mortgage interest (including points) in the course of the partnership's trade or business and reimbursements of overpaid interest.
- **Forms 1099-A, B, INT, LTC, MSA, MISC, OID, R, and S**. You may have to file these information returns to report acquisitions or abandonments of secured property; proceeds from broker and barter exchange transactions; interest payments; payments of long-term care and accelerated death benefits; miscellaneous income payments; distributions from an Archer MSA; original issue discount; distributions from pensions, annuities, retirement or profit-sharing plans, IRAs, insurance contracts, etc.; and proceeds from real estate transactions. Also, use certain of these returns to report amounts that were received as a nominee on behalf of another person.

For more information, see the General Instructions for Forms 1099, 1098, 5498, and W-2G, and the separate specific instructions for each type of information return you file (for example, Instructions for Forms 1099-MISC).

**Note:** *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.*

- **Form 5471**, Information Return of U.S. Persons With Respect to Certain Foreign Corporations. A partnership may have to file Form 5471 if it **(a)** controls a foreign corporation; or **(b)** acquires, disposes of, or owns 10% or more in value or vote of the outstanding stock of a foreign corporation; or **(c)** 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.
- **Form 5713**, International Boycott Report, is used by persons having operations in, or related to, a "boycotting" country, company, or national of a country, to report those operations and 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.
- **Form 8264**, Application for Registration of a Tax Shelter. Tax shelter organizers must file Form 8264 to get a tax shelter registration number from the IRS.
- **Form 8271**, Investor Reporting of Tax Shelter Registration Number. Partnerships that have acquired an

interest in a tax shelter that is required to be registered use Form 8271 to report the tax shelter's registration number. Attach Form 8271 to any return on which a deduction, credit, loss, or other tax benefit attributable to a tax shelter is taken or any income attributable to a tax shelter is reported.

- **Form 8275**, Disclosure Statement. File Form 8275 to 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. Form 8275 is also used for disclosures relating to preparer penalties for understatements due to unrealistic positions or disregard of rules.
- **Form 8275-R**, Regulation Disclosure Statement, is used to disclose any item on a tax return for which a position has been taken that is contrary to Treasury regulations.
- **Forms 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. Use these forms to 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.
- **Form 8300**, Report of Cash Payments Over \$10,000 Received in a Trade or Business. File this form to report the receipt of more than \$10,000 in cash or foreign currency in one transaction or a series of related transactions.
- **Form 8308**, Report of a Sale or Exchange of Certain Partnership Interests, is used by a partnership to 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.
- **Form 8594**, Asset Allocation Statement Under Sections 338 and 1060. Both the seller and buyer of a group of assets that makes up a trade or business must use this form to report such a sale if goodwill or going concern value attaches, or could attach, to such assets and if the buyer's basis in the assets is determined only by the amount paid for the assets.
- **Form 8697**, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts. Partnerships that are not closely held use this form to 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.
- **Forms 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 (Section 1446). File Forms 8804 and 8805 if the partnership had effectively connected gross income and foreign partners for the tax year. Use Form 8813 to send installment payments of withheld tax based on effectively connected taxable income allocable to foreign partners.

**Exception:** *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 section 1446 for more information.*

- **Form 8832**, Entity Classification Election. 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.
- **Form 8865**, Return of U.S. Persons With Respect To Certain Foreign Partnerships. A domestic partnership may have to file Form 8865 if it:
  1. Controlled a foreign partnership (i.e., it owned more than a 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:
    - a. Increased its direct interest to at least 10% or reduced its direct interest of at least 10% to less than 10%.
    - 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:
    - a. Immediately after the contribution, the partnership owned, directly or indirectly, at least a 10% interest in the foreign partnership; or
    - b. The fair market value of the property the partnership contributed to the foreign partnership in exchange for a partnership interest, when added to other contributions of property made to the foreign partnership during the preceding 12-month period, exceeds \$100,000.

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 foreign 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.

• **Form 8866, Interest Computation** Under the Look-Back Method for Property Depreciated Under the Income Forecast Method. Partnerships that are not closely held use this form to figure the interest due or to be refunded under the look-back method of section 167(g)(2) for certain property placed in service after September 13, 1995, depreciated under the income forecast method.

• **Statement of section 743(b) basis adjustments.** If the partnership is required to adjust the bases of partnership properties (under section 743(b) because of a section 754 election) on the sale or exchange of a partnership interest or on the death of a partner, the partnership must attach a statement to its return for the year of the transfer. The statement must list:

1. The name and identifying number of the transferee partner,
2. The computation of the adjustment, and
3. The partnership properties to which the adjustment has been allocated.

See Regulations section 1.743-1(k) for more information.

## Assembling the Return

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

- Pages 1–5,
- Schedule F (Form 1040) (if required),
- Form 8825 (if required),
- Any other schedules in alphabetical order, and
- Any other forms in numerical order.

To assist us in processing the return, complete every applicable entry space on Form 1065-B and Schedule K-1. **If you attach statements, do not write “See attached” instead of completing the entry spaces on the forms. 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. Use the same size and format as on the printed forms. **But show your totals on the printed forms.** Be sure to put the partnership’s name and EIN on each sheet.

## Overview

The taxable income of an electing large partnership is computed in the same manner as that of an individual, except that the items described below are separately stated and certain

modifications are made. These modifications include not allowing the deduction for personal exemptions, the net operating loss deduction, and certain itemized deductions. Other itemized deductions are modified.

The netting of capital gains and losses occurs at the partnership level. Such net capital gain (loss) is treated as long-term capital gain (loss). Any excess of net short-term capital gain over net long-term capital loss is consolidated with the partnership’s other taxable income and is not separately reported.

General credits are separately reported to partners as a single item. They are taken into account by partners as a current year general business credit. General credits are those credits that are not separately reported. The refundable credit for Federal tax paid on fuels and the refund or credit for tax paid on undistributed capital gains of a regulated investment company or a real estate investment trust are taken by the partnership and thus are not separately reported to partners. The partnership also recaptures the investment credit and low-income housing credit.

## Separately Stated Items

Partners must take into account separately (under section 772(a)) their distributive shares of the following items (whether or not they are actually distributed):

- Taxable income or loss from passive loss limitation activities.
- Taxable income or loss from other activities (e.g., portfolio income or loss).
- Net capital gain or loss allocable to passive loss limitation activities.
- Net capital gain or loss allocable to other activities.
- 28% rate gain or loss allocable to passive loss limitation activities.
- 28% rate gain or loss allocable to other activities.
- Qualified 5-year gain.
- Tax-exempt interest income.
- Extraterritorial income exclusion and foreign trading gross receipts.
- Net alternative minimum tax (AMT) adjustment separately computed for passive loss limitation activities.
- Net AMT adjustment separately computed for other activities.
- General credits.
- Low-income housing credit.
- Rehabilitation credit from rental real estate activities.
- Credit for producing fuel from a nonconventional source.
- Creditable foreign taxes and foreign source items.
- Other items of income, gain, loss, deduction, or credit, to the extent the IRS determines separate treatment is appropriate. Examples of such items include gains on sales of qualified small business stock (information required for a

section 1202 exclusion or section 1045 rollover).

**Note:** For electing large partnerships, the term **passive loss limitation activities** includes trade or business, rental real estate, and other rental activities. Partnership items from passive loss limitation activities allocated to limited partners are treated as being from passive activities and subject to the passive activity limitations. However, general partners may have materially or actively participated in some or all of these passive loss limitation activities. Each general partner must determine if any partnership items from these activities are subject to the passive activity limitations. To allow each general partner to correctly apply the passive activity limitations, the partnership must report income or loss and credits separately for each trade or business activity, rental real estate activity, rental activity other than rental real estate, and other activities (e.g., portfolio income). See page 9 for details.

The character of any item separately stated to the partners is based on its character to the partnership. The items are treated as incurred by the partnership, similar to the character rule for other partnerships under section 702(b).

## Limitations

Most limitations and other provisions affecting taxable income or credit are applied at the partnership level except for:

- Section 68—Overall itemized deduction limitation.
- Sections 49 and 465—At-risk limitations.
- Section 469—Passive loss limitations.

For example, the limitation on miscellaneous itemized deductions is applied at the partnership level. However, instead of the 2% floor, 70% of the partnership’s total miscellaneous itemized deductions are disallowed.

Another limitation that is applied at the partnership level is the deduction for charitable contributions. The deduction is limited to 10% of the partnership’s taxable income (before the charitable contribution deduction).

## Elections Made by the Partnership

All elections, other than the exceptions listed under **Elections Made by Each Partner**, affecting the computation of taxable income or any credit are made by the partnership. 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 tangible property).

2. Section 1033 (involuntary conversions).

3. Section 754 (manner of electing optional adjustment to basis of partnership property).

There are no changes to the optional basis adjustment provisions as a result of the electing large partnership rules. 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. 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).
- The signature of the general 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 page 7 for details.

## Elections Made by Each Partner

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

1. Section 108 (income from discharge of indebtedness). If an electing large partnership has income from the discharge of any indebtedness, this is reported separately to each partner.
2. 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

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.

For property contributed to the partnership, the contributing partner must recognize gain or loss on a distribution of the property to another partner within 5 years of its being contributed. For property contributed after June 8, 1997, the 5-year period is generally extended to 7 years. 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 5 years of the distribution and that was held by the partnership just before the distribution. For property contributed after June 8, 1997, the 5-year period is generally extended to 7 years.

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 and 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 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.

## Activities of Electing Large Partnerships

The activities of an electing large partnership are reported as either:

- Passive loss limitation activities, including trade or business, real estate rental, and other rental activities or
- Other activities, including portfolio or investment activities.

### Passive Loss Limitation Activities

The term **passive loss limitation activity** means any activity involving the conduct of a trade or business (including any activity treated as a trade or business under section 469(c)(5) or (6)), or any rental activity.

A limited partner's share of an electing large partnership's taxable income or loss from these activities is treated as income or loss from the conduct of a single passive trade or business activity. Thus, an electing large partnership does not have to report items from multiple activities separately to limited partners.

However, if a partner holds an interest in an electing large partnership other than as a limited partner, the distributive share of items from each activity is accounted for separately under the passive activity rules of section 469. Thus, for example, passive loss limitation activity income or loss is not treated as passive income with respect to the general partnership interest of a partner who materially participates in the partnership's trade or business activities. For general partners, the partnership does have to report items for each activity separately.

### 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).

### 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 in making the property available for customer use.
- **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).
- 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 FMV.

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 FMV.

The sale or exchange of property that is both rented and sold or exchanged during the tax year (where the 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.

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.

### Other Activities

The term **other activities** means activities other than passive loss limitation activities. This is income or expenses connected with property held for investment, i.e., 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. Portfolio income is reported separately and is reduced by portfolio deductions, allocable investment interest expense, and nonbusiness deductions.

## Special Reporting Requirements

### General Partners

#### Passive Activity Reporting Requirements

To allow general 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** on page 11.

2. On the attachment for each activity, provide a schedule detailing the net income (loss), credits, and all items

required to be separately stated under section 772(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. For this purpose, personal property means property that is actively traded such as stocks, bonds, and other securities. See Temporary Regulations section 1.469-1T(e)(6).

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.

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.

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 that was 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.

For more information on passive activities, see **Pub. 925**, *Passive Activity and At-Risk Rules*.

### Grouping Activities

Generally, one or more trade or business activities or rental activities may be treated as a single activity if the activities make up an appropriate economic unit for the 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.
- 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, or
- 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 may not treat as separate activities those activities grouped together by a partnership.

### Tax-Exempt Partners

A tax-exempt partner is subject to tax on its distributive share of partnership income to the extent that the partnership activity is an unrelated business for the partner. Therefore, partnership items must be separately reported to tax-exempt partners to allow them to compute income from an unrelated business.

### Publicly Traded Partnerships

For electing large partnerships, the requirement that the passive loss rules be separately applied to each publicly traded partnership continues to apply.

### Partnerships Holding Residual Interests in Real Estate Mortgage Investment Conduits (REMICs)

For purposes of the excise tax on partnerships holding residual interests in REMICs, all interests in an electing large partnership are treated as held by disqualified organizations. Therefore, an

electing large partnership holding a residual interest in a REMIC is subject to an annual tax equal to 35% of the excess inclusions. The amount that is subject to tax is excluded from partnership income. To report and pay this tax, file **Form 8831**, *Excise Taxes on Excess Inclusions of REMIC Residual Interests*.

### Partnerships Holding Oil and Gas Properties

Partnerships holding oil and gas properties generally follow the same simplified reporting rules as other electing large partnerships. However, certain partners are treated as **disqualified persons**, and special rules apply.

**Computing depletion.** Depletion is generally computed at the partnership level. The 1,000-barrel-per-day-limitation on depletion does not apply. Depletion is also computed without regard to the 65-percent-of-taxable-income limitation and the depletion basis adjustment. The depletion deduction is computed with the assumptions that the partnership is the taxpayer and that it qualifies for the percentage depletion deduction. This deduction is reported to partners (other than disqualified persons) as part of their share of the taxable income (loss) from passive loss limitation activities.

**Disqualified persons.** Two categories of taxpayers are defined as **disqualified persons**:

- Certain retailers and refiners who do not qualify for the section 613A percentage depletion deduction. See section 613A(d)(2) and (4).
- Any other person whose average daily production of domestic crude oil and natural gas exceeds 500 barrels for its tax year in which the partnership's tax year ends. See section 776(b) for more details.

A disqualified person must notify the partnership of its status as such.

**Reporting to disqualified persons.** An electing large partnership reports information **related to oil and gas activities** to a disqualified person in box 9 of Schedule K-1 (Form 1065-B) providing the same information as required for other partnerships. This information may be provided in an attached statement if additional space is required. However, the simplified rules do apply to a disqualified person's share of items not related to oil and gas activities.

**Other reporting requirements.** Unlike other partnerships, the election to deduct intangible drilling and development costs (IDCs) is made at the partnership level, and the partnership may passthrough a full deduction of IDCs to its partners who are not disqualified persons. Also, an electing large partnership (and not the partners) makes the section 59(e) election to capitalize and amortize certain specific IDCs for its partners who are not disqualified persons. However, partners who are disqualified persons are

permitted to make their own separate section 59(e) election.

A single AMT adjustment (under either corporate or noncorporate rules) is made and reported to partners who are not disqualified persons. This separately reported item is affected by the limitation on the repeal of the tax preference for excess IDCs. For purposes of computing this limitation, the partnership is treated as the taxpayer. Thus, the limitation on repeal of the IDC preference is applied at the partnership level and is based on the cumulative reduction in the partnership's alternative minimum taxable income resulting from repeal of that preference.

Finally, in making partnership-level computations, any item of income, gain, loss, deduction, or credit attributable to a disqualified person is disregarded. For example, in computing the partnership's net income from oil and gas for purposes of determining the IDC preference to be reported to partners as part of the AMT adjustment, disqualified persons' distributive shares of the partnership's net income from oil and gas are not taken into account.

## Extraterritorial Income Exclusion

The partnership may exclude extraterritorial income to the extent of qualifying foreign trade income. For details and to figure the amount of the exclusion, see **Form 8873**, Extraterritorial Income Exclusion, and its separate instructions. 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 may report the exclusion as a non-separately stated item on whichever of the following lines apply to that activity:

- Form 1065-B, Part I, line 23;
- Form 1065-B, Part I, line 5; or
- Form 8825, line 15.

In addition, the partnership must report, as an item of information using Code P1 in box 9 of Schedule K-1, 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 may **not** report the extraterritorial income exclusion as a non-separately stated item on its return. Instead, the partnership must report the following separately-stated items to the partners:

- Using Code P1, enter in box 9 of Schedule K-1 the partner's distributive share of foreign trading gross receipts from the partnership's Form 8873, line 15.

- Using Code P2, enter in box 9 of Schedule K-1 the partner's distributive share of the extraterritorial income exclusion from the partnership's Form 8873, line 55. For general partners only, identify the activity to which the exclusion relates.

**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.

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## Specific Instructions

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These instructions follow the line numbers on Form 1065-B. The accompanying schedules are discussed separately. Specific instructions for most of the lines are provided on the following pages. Lines that are not discussed in the instructions 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-B, Parts I or II, or on Schedule A or Schedule D.

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

## General Information

### Name, Address, and Employer Identification Number

**Name.** Print or type the legal name of the partnership as it appears in the partnership agreement.

If the partnership has changed its name, check box G(2).

**Address.** 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'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 name of 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 had a change of address, check box G(3). If the partnership changes its mailing address after filing its return, it can notify the IRS by filing **Form 8822**, Change of Address.

**Employer identification number (EIN).** Show the correct EIN in item D on page 1 of Form 1065-B.

## Items A and C

Enter the applicable activity name and the code number from the list beginning on page 33.

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 33.

## Item F—Total Assets

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 the total assets as of the beginning of the tax year.

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## Part I—Taxable Income or Loss from Passive Loss Limitation Activities

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Report only amounts from passive loss limitation activities in Part I. See page 9 for the definition of "passive loss limitation activity."

**Do not** report any tax-exempt interest income or income from the discharge of any indebtedness on lines 1a through 10. These amounts are accounted for separately by each partner and are reported in box 9 of Schedule K-1 (Form 1065-B). Income from discharge of indebtedness is also reported on line 8 of Schedule K, and tax-exempt interest income is reported on line 9 of Schedule K.

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 **Pub. 908**, Bankruptcy Tax Guide.

## Income

### 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 6 through 10. For example, do not include gross receipts from farming on this line. Instead, show the net profit (loss) from farming on line 7. Also, do not include on line 1a 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 by an accrual method partnership, see Rev. Proc. 71-21, 1971-2 C.B. 549.

**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. See section 453(l) for details and exceptions.

For sales of timeshares and residential lots reported under the installment method, the electing large partnership's income tax is increased by the interest payable under section 453(l)(3). In determining the amount of interest payable, the partnership is treated as subject to tax at a 39.1% rate. To report this addition to the tax, see the instructions for line 26.

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.
- Dispositions of timeshares and residential lots reported under the installment method.

Attach a schedule 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 amount collected.

## Line 2—Cost of Goods Sold

See the instructions for Schedule A on page 18.

## Line 4—Net Income (Loss) From Rental Real Estate Activities

Enter the net income or loss from rental real estate activities of the partnership from Form 8825. Attach this form to Form 1065-B. If the amount entered is from

more than one activity, attach a schedule identifying the amount from each activity.

## Line 5—Net Income (Loss) From Other Rental Activities

On line 5 enter the net income from rental activities other than rental real estate activities. See page 9 of these instructions and Pub. 925 for the definition of rental activities. Include on this line the gain (loss) from line 18 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. If the amount entered is from more than one activity, attach a schedule identifying the amount from each activity.

## Line 6—Ordinary Income (Loss) From Other Partnerships, Estates, and Trusts

Enter the ordinary income (loss) shown on Schedule K-1 (Form 1065, 1065-B, or 1041) or other ordinary income (loss) from a foreign partnership, estate, or trust. Be sure to 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 rental activity income (loss) from other partnerships, estates, or trusts on this line. Instead, report these amounts on line 20a of Form 8825 or line 5 of Form 1065-B, Part I.

Ordinary income or loss from another partnership that is a publicly traded partnership is not reported on this line. Instead, report the amount separately on an attachment to line 16 of Schedule K and in box 9 of Schedule K-1.

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 7—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-B. In figuring the partnership's net farm profit (loss), include any section 179 expense deduction. **Do not** include on this line any farm profit (loss) from other partnerships. Report those amounts on line 6.

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.

## Line 9—Net Gain (Loss) From Form 4797

On this line include **only** the 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 not reported on line 9. Instead, report them on line 19 of Form 8825 or line 5 of Form 1065-B, Part I.

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.

## Line 10—Other Income (Loss)

Enter on line 10 trade or business income (loss) that is not included on lines 1a through 9. 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 earlier years under the specific charge-off method.
3. Taxable income from insurance proceeds.
4. The amount of credit figured on **Form 6478**, Credit for Alcohol Used as Fuel.

5. All section 481 income adjustments resulting from changes in accounting methods. Show the computation of the section 481 adjustments on an attached schedule.


6. The amount of any deduction previously taken under section 179A that is subject to recapture. See **Pub. 535**, Business Expenses, for details, including how to figure the recapture.

7. The recapture amount for section 280F if the business use of listed property drops to 50% or less. To figure the recapture amount, the partnership must complete Part IV of Form 4797.

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 beginning on page 22.

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

## Deductions

 Report **only** trade or business activity deductions on lines 12 through 24.

**Do not** report the following expenses on lines 12 through 24:

- Rental activity expenses. Report these expenses on Form 8825 or on an attached schedule for line 5 of Form 1065-B, Part I.
- Deductions allocable to portfolio income. Report these deductions on page 2, Part II.
- Nondeductible expenses (e.g., expenses connected with the production of tax-exempt income). Report nondeductible expenses on an attachment to line 16 of Schedule K and in box 9 of Schedules K-1.
- Items the partnership must state separately that require separate computations by the partners. An example is foreign taxes paid. The distributive share of this expense is reported separately to each partner on Schedule K-1, box 9.

## Limitations on Deductions

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

- The production of real 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:

- Inventoriable items accounted for in the same manner as material and supplies that are not incidental. See **Schedule A—Cost of Goods Sold** on page 18, 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.
- Research and experimental costs under section 174.
- Intangible drilling costs for oil, gas, and geothermal property.
- Mining exploration and development costs.

**Tangible personal property** produced by a partnership includes a film,

sound recording, videotape, book, or similar property.

Partnerships subject to the 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 by reason of the performance of production or resale activities.

For inventory, some of the **indirect costs** that must be capitalized are:

- 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 may 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 expenses.** Business start-up expenses must be capitalized. An election may be made to amortize them over a period of not less than 60 months. See Pub. 535 and Regulations section 1.195-1.

**Organization costs.** Amounts paid or incurred to organize a partnership are capital expenditures. They are not deductible as a current expense.

The partnership may elect to amortize organization expenses over a period of 60 or more months, beginning with the month in which the partnership begins business. Include the amortization expense on line 23. On the balance sheet (Schedule L) show the unamortized balance of organization costs. See the instructions for line 13 for the treatment of organization expenses paid to a partner. See Pub. 535 for more information.

**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 13 for the treatment of syndication fees paid to a partner.

**Reducing certain expenses for which credits are allowable.** For each of the following credits, the partnership must reduce the otherwise allowable deductions for expenses used to figure the credit by the amount of the current year credit:

1. The work opportunity credit.
2. The welfare-to-work credit.
3. The credit for increasing research activities.
4. The enhanced oil recovery credit.
5. The disabled access credit.
6. The empowerment zone employment credit.
7. The Indian employment credit.
8. The credit for employer social security and Medicare taxes paid on certain employee tips.
9. The orphan drug credit.

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

## Line 12—Salaries and Wages

Enter on line 12 the salaries and wages paid or incurred for the tax year, reduced by any applicable employment credits from **Form 5884**, Work Opportunity Credit; **Form 8861**, Welfare-to-Work Credit; **Form 8844**, Empowerment Zone Employment Credit; and **Form 8845**, Indian Employment Credit. 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 simplified employee plan (SEP) agreement or a SIMPLE IRA plan.

## Line 13—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 13 amounts paid during the tax year for insurance that constitutes medical care for a partner, a partner's spouse, or a partner's dependents.

Do not include any payments and credits that should be capitalized. For example, although payments or credits to a partner for services rendered in organizing or syndicating a partnership may be guaranteed payments, they are not deductible on line 13. They are capital expenditures. However, they should be separately reported on Schedule K, line 7, and Schedules K-1, box 9.

Do not include distributive shares of partnership profits.

Report the guaranteed payments to the appropriate partners on Schedules K-1, box 9.


**Line 14—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.

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 15—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.

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

**Line 16—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**. You may have an inclusion amount if:

The lease term began:	And the vehicle's FMV on the first day of the lease exceeded:
After 12/31/98 . . . . .	\$15,500
After 12/31/96 but before 1/1/99 . . . . .	\$15,800
After 12/31/94 but before 1/1/97 . . . . .	\$15,500

If the lease term began before January 1, 1995, see **Pub. 463**, Travel, Entertainment, Gift, and Car Expenses, to find out if the partnership has an inclusion amount.

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

**Line 17—Taxes and Licenses**

Enter taxes and licenses paid or incurred in the trade or business activities of the

partnership if not reflected in cost of goods sold. 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 17:

- State and local sales taxes paid or incurred in connection with the acquisition or disposition of business property. These taxes must be added to the cost of the property, or, in the case of a disposition, subtracted from the amount realized.
- Taxes assessed against local benefits to the extent that they increase the value of the property assessed, such as for paving, etc.
- Federal income taxes or taxes reported elsewhere on the return.
- Section 901 foreign taxes. Report these taxes separately on Schedule K, line 15g, and Schedules K-1, box 9.
- 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 Form 1065-B on an attachment to Part I, line 5.
- Taxes allocable to portfolio income. These taxes are reported on Form 1065-B in Part II, line 8 or 11.
- Taxes paid or incurred for the production or collection of income, or for the management, conservation, or maintenance of property held to produce income. Also report these taxes on Form 1065-B in Part II, line 8 or 11.

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

**Line 18—Interest**

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

Do not deduct interest expense 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 that is 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 that is allocable to an asset used to produce designated property. See section 263A(f) and Regulations sections 1.263A-8 through 1.263A-15.

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 4. Interest allocable to a rental activity other than a rental real estate activity 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 5.

Do not include interest expense on debt used to buy property held for investment. Do not include interest expense that is clearly and directly allocable to interest, dividend, royalty, or annuity income not derived in the ordinary course of a trade or business. Interest paid or incurred on debt used to purchase or carry investment property is reported on line 7 of Part II. See the instructions for **Form 4952**, Investment Interest Expense Deduction, for more information on investment property.

Temporary Regulations section 1.163-8T gives rules for 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 that debt is allocated. Debt is allocated by tracing disbursements of the debt proceeds to specific expenditures, as provided in the regulations.

Interest paid by a partnership to a partner for the use of capital should be entered on line 13 as guaranteed payments.

Prepaid interest can only be deducted over the period to which the prepayment applies.

**Note:** *Additional limitations on interest deductions apply when the partnership is a policyholder or beneficiary with respect to a life insurance, endowment, or annuity contract issued after June 8, 1997. For details, see section 264. Attach a statement showing the computation of the deduction disallowed under section 264.*

**Line 19—Depreciation and Section 179 Expense Deduction**

On line 19a, enter **only** the depreciation (including section 179 expense deduction) claimed on assets used in a trade or business activity. Enter on line 19b the depreciation (including section 179 expense deduction) 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 (including section 179 expense deduction) to enter on this line.

For depreciation, you must 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.

## Line 20—Depletion

An electing large partnership computes the deduction for oil and gas depletion at the partnership level. The deduction is computed under the assumptions that the partnership is the taxpayer and that it qualifies for the percentage depletion deduction. In computing the depletion deduction, the 1,000-barrel-per-day limitation and the 65 percent-of-taxable-income limitation do not apply.

The amount of the depletion deduction is generally reported to each partner as a component of that partner's distributive share of taxable income or loss from passive loss limitation activities. However, the partnership must report information related to oil and gas activities to a partner who is a disqualified person in the same manner that it reports the information under the regular partnership tax law. See **Partnerships Holding Oil and Gas Properties** on page 11 for more details.

If the partnership claims a deduction for timber depletion, complete and attach **Form T**, Forest Activities Schedules.

## Line 21—Retirement Plans, etc.

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 Part I, line 12, or Schedule A, line 3, and not on line 21.

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).

There are penalties for not filing these forms on time.

## Line 22—Employee Benefit Programs

Enter the partnership's contributions to employee benefit programs not claimed elsewhere on the return (e.g., insurance, health, and welfare programs) that are not part of a pension, profit-sharing, etc., plan included on line 21.

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 13 as guaranteed payments and on Schedule K, line 7, and Schedule K-1, box 9, of each partner on whose behalf the amounts were paid.

## Line 23—Other Deductions

Attach your own schedule, listing by type and amount, all allowable deductions related to a trade or business activity **only** for which there is no separate line on Part I of Form 1065-B. Enter the total on this line.

Include on line 23 qualified expenditures deducted under:

- Section 173, relating to circulation expenditures.
- Section 174, relating to research and experimental expenditures.
- Section 263(c), relating to intangible drilling and development expenditures.
- Section 616(a), relating to development expenditures.
- Section 617(a), relating to mining exploration expenditures.

The election to deduct intangible drilling costs under section 263(c) is made at the partnership level. As stated on page 11, an electing large partnership also has the responsibility with respect to its partners who are not disqualified persons for making an election under section 59(e) to capitalize and amortize certain specified intangible drilling costs. However, disqualified persons make their own separate section 59(e) elections. See **Partnerships Holding Oil and Gas Properties** on page 11 for more information.

Include on line 23 the deduction taken for amortization. Complete and attach Form 4562 if the partnership is claiming amortization of costs that begins during the tax year. Include amortization of reforestation expenditures under section 194. The partnership can elect to amortize up to \$10,000 of qualified reforestation expenditures paid or incurred during the tax year. This amortization is deducted by the partnership instead of separately reporting the amortizable basis to its partners. See Pub. 535 for more information on amortization.

Also, see **Special Rules** below for limits on certain other deductions.

**Do not** deduct on line 23:

- Items that must be reported separately on Schedules K and K-1.
- Qualified expenditures to which an election under section 59(e) may apply.
- Fines or penalties paid to a government for violating any law. Report these expenses on Schedule K, line 16.
- Expenses allocable to tax-exempt income. Report these expenses on Schedule K, line 16.

- Any amount that is allocable to a class of exempt income. See section 265(b) for exceptions.
- 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.
- 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

### 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. Special rules apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets. See section 274 and Pub. 463 for more 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. 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, 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.

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

## Line 26—Tax

**Net recapture taxes.** Recapture of the low-income housing credit and investment credit is imposed at the partnership level, and the amount of recapture is determined by assuming that the credit was fully utilized to reduce tax. Credit recapture does not result from any transfer of an interest in an electing large partnership. Report recapture of low-income housing and investment credit as follows:

1. Apply the recapture to reduce any current year credit of the same type (low-income housing or investment credit).
2. Report any remaining recapture on line 26. The partnership is liable to pay any unapplied recapture amount.

Report recapture of any other credit as a separately stated item.

**Interest on deferred tax attributable to installment sales of certain timeshares and residential lots.** For sales of timeshares and residential lots reported under the installment method, the partnership's income tax is increased by the interest payable under section 453(l)(3). In determining the amount of interest payable, the partnership is treated as subject to tax at a 39.1% rate. Report this amount on line 26 with the notation "Section 453(l)(3) interest." Attach a schedule showing the computation.

**Interest on tax deferred under the installment method for certain nondealer real property installment obligations.** If an obligation arising from the disposition of real property to which section 453A applies is outstanding at the close of the year, the partnership must include the interest due under section 453A(c). In determining the amount of interest payable, the partnership is treated as subject to tax at a 39.1% rate.

Report this amount on line 26 with the notation "Section 453A(c) interest." Attach a schedule showing the computation.

## Line 27

Enter the total amounts from line 2 of **Form 2439**, Notice to Shareholder of Undistributed Long-Term Capital Gains, and line 10 of **Form 4136**, Credit for Federal Tax Paid on Fuels. The credit for tax paid on undistributed capital gains of a regulated investment company or a real estate investment trust and the refundable credit for fuel used for certain purposes are allowed to the partnership. They are not separately reported to partners.

## Line 28

Attach a check or money order payable to the "**United States Treasury.**" Write "2001 Form 1065-B," and the partnership's name, address, phone number, and EIN on the payment.

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## Part II—Taxable Income or Loss From Other Activities

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Report in Part II only income (loss) and deductions from activities not included in Part I (for example, portfolio income and deductions). See page 10 for a definition of portfolio income.

### Lines 1 and 2

Enter only taxable interest and ordinary dividends (not from passive loss limitation activities) on these lines.

### Line 5

Report and identify other income or loss on an attachment for line 5.

### Line 7

Investment interest is interest paid or accrued on debt properly allocable to property held for investment. 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 does not include interest expense allocable to passive loss limitation activities.

To figure the deductible amount of investment interest, complete Form 4952. Enter the amount from line 8 of Form 4952.

### Line 8

Include on line 8 state and local income taxes paid by the partnership that would be allowed as itemized deductions on any partners' income tax returns if they were paid directly by the partner for the same purpose.

## Line 9

Enter contributions or gifts actually paid during the tax year to or for the use of charitable and governmental organizations described in section 170(c). The total amount claimed may not be more than 10% of the partnership's taxable income (total income minus deductions) figured without regard to the deduction for charitable contributions. The deduction for certain contributions of ordinary income and capital gain property is reduced under section 170(e).

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.

**Form 8283**, Noncash Charitable Contributions, must be completed and attached to Form 1065-B if the deduction claimed for noncash contributions exceeds \$500.

Certain contributions made to an organization conducting lobbying activities are not deductible. See section 170(f)(9) for more details.

If the partnership made a qualified conservation contribution, include the FMV 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.

### Lines 10a and 10b

Enter on line 10a miscellaneous itemized deductions as defined in section 67(b). These deductions include expenses for the production or collection of income under section 212, such as investment advisory fees, subscriptions to investment advisory publications, and the cost of safe deposit boxes. Multiply line 10a by 30% (.30) and enter the result on line 10b. The remaining 70% of the amount on line 10a is not allowed as a deduction to the partnership or its partners.

### Line 11

Other allowable deductions include items such as:

- Real estate taxes and personal property taxes on investment property.
- Casualty and theft losses on income-producing property.
- Any penalty on the early withdrawal of savings.

Attach a schedule for line 11 listing they type and amount of each allowable deduction for which there is no separate line in Part II of Form 1065-B.

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## Schedule A—Cost of Goods Sold

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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, 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. A **qualifying taxpayer** is a taxpayer **(a)** whose average annual gross receipts for the 3 prior tax years are \$1 million or less and **(b)** whose business is not a tax shelter (as defined in section 448(d)(3)). In addition, for tax years ending on or after December 31, 2001, this rule applies to an eligible business of a qualifying small business taxpayer. A **qualifying small business taxpayer** includes a partnership with average annual gross receipts of more than \$1 million but less than or equal to \$10 million and that is not prohibited from using the cash method under section 448. For more details, including the definition of an eligible business, see Notice 2001-76.

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). 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. For additional guidance on this method of accounting for inventory items, see Rev. Proc. 2001-10, 2001-2 I.R.B. 272 and Pub. 538.

All filers not using the cash method of accounting should see **Section 263A uniform capitalization rules** on page 14 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 4).

### Line 2—Purchases

Reduce purchases by items withdrawn for personal use. The cost of items withdrawn for personal use should be shown as property distributions on an attachment to line 16 of Schedule K and in box 9 of Schedule K-1.

### 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 more 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 schedule 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 schedule.

### 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 are included on line 6 and were not sold during the year.

## Lines 9a through 9e—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.

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

Partnerships that account for inventoriable items in the same manner as materials and supplies that are not incidental may currently deduct expenditures for direct labor and all indirect costs that would otherwise be included in inventory costs.

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.

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, shop wear, etc., within the meaning of Regulations section 1.471-2(c). These goods may be valued at the current bona fide selling price minus the direct cost of disposition (but not less than scrap value) if such a price can be established.

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 10, Part I, Form 1065-B) 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.

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## Schedule B—Other Information

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### Question 1

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

### Question 3

The partnership must answer **Yes** to Question 3, if during the tax year, it owned:

- An interest in another partnership (foreign or domestic) or
- A foreign entity that was disregarded as an entity separate from the partnership under Regulations sections 301.7701-2 and 301.7701-3.

If the partnership answered **Yes** to this question, report the following information on an attached schedule:

1. If the partnership owned at least a 10% interest, directly or indirectly, in any other foreign or domestic partnership (other than any partnership for which a Form 8865 is attached to the tax return), show each partnership's name, EIN (if any), and the country under whose laws the partnership was organized.

2. If the partnership owned any entities that have been disregarded as separate from the partnership, show each disregarded entity's name, EIN (if any), and the country under whose laws the partnership was organized.

**Note:** *Clearly indicate whether each entity in the attached schedule is a partnership or a disregarded entity.*

### Question 4—Foreign Partners

Answer **Yes** to Question 4 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.

### Question 5

Answer **Yes** to Question 5 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 6

Organizers of certain tax shelters are required to register the tax shelters by filing Form 8264 no later than the day on which an interest in the shelter is first offered for sale. Organizers filing a properly completed Form 8264 will receive a tax shelter registration number that they must furnish to their investors. See the Instructions for Form 8264 for the definition of a tax shelter and the investments exempted from tax shelter registration.

### Question 7—Foreign Accounts

Answer **Yes** to Question 7 if either **1** or **2** below applies to the partnership. Otherwise, check the **No** box.

1. At any time during the 2001 calendar year, 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; **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.

Get **Form TD F 90-22.1**, Report of Foreign Bank and Financial Accounts, to see if the partnership is considered to have an interest in or signature or other authority over a bank account, securities account, or other financial account in a foreign country.

If you answered **Yes** to Question 7, file Form TD F 90-22.1 by June 30, 2002, with the Department of the Treasury at the address shown on the form. Because Form TD F 90-22.1 is not a tax return, **do not** file it with Form 1065-B. You may 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 Web Site at [www.irs.gov](http://www.irs.gov).

### Question 8

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.*

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## Schedule D—Capital Gains and Losses

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### Purpose of Schedule

Use Schedule D (Form 1065-B) to report sales or exchanges of capital assets, capital gain distributions, and nonbusiness bad debts.

Do not report on Schedule D capital gains (losses) specially allocated to any partners. Enter specially allocated capital gains (losses) directly on line 3 or 4 of Schedule K, or on an attachment to line 16 of Schedule K and in box 3, 4, or 9 of Schedule K-1, whichever applies. See **How Income Is Shared Among Partners** on page 23.

### What are Capital Assets?

Each item of property the partnership held (whether or not connected with its trade or business) is a capital asset **except**:

- Stock in trade or other property included in inventory or held mainly for sale to customers.
- Accounts or notes receivable acquired in the ordinary course of the trade or business for services rendered or from the sale of stock in trade or other property held mainly for sale to customers.
- Depreciable or real property used in the trade or business, even if it is fully depreciated.
- Certain copyrights; literary, musical, or artistic compositions; letters or memoranda; or similar property. See section 1221(a)(3).
- U.S. Government publications, including the Congressional Record, that the partnership received from the Government, other than by purchase at the normal sales price, or that the partnership got from another taxpayer who had received it in a similar way, if the partnership's basis is determined by reference to the previous owner.
- Certain commodities derivative financial instruments held by a dealer. See section 1221(a)(6).
- Certain hedging transactions entered into in the normal course of the trade or business. See section 1221(a)(7).
- Supplies regularly used in the trade or business.

### Overview of Large Partnership Provisions

For electing large partnerships, capital gains and losses generally are netted at the partnership level. A partner in a large partnership takes into account separately his distributive share of the partnership's net capital gain or net capital loss. Such

net capital gain (loss) is treated as long-term capital gain (loss). The 28% rate gain (loss) is treated in the same manner.

Any excess of net short-term capital gain over net long-term capital loss is not separately stated. Instead, it is consolidated with the partnership's other taxable income.

A partner's distributive share is divided between passive loss limitation activities and other activities. Capital gain (loss) is allocated to passive loss limitation activities to the extent that it is from sales and exchanges of property used in connection with a trade or business or rental activity. Any excess is allocated to other activities (i.e., portfolio income).

Section 1231 gains are also netted at the partnership level. The net gain is generally treated as long-term capital gain. The net loss is treated as an ordinary loss and is included in computing the partnership's taxable income.

### Items for Special Treatment

- Use **Form 4797**, Sales of Business Property, to report (a) sales or exchanges of property used in a trade or business, (b) sales or exchanges of depreciable or amortizable property, (c) sales or other dispositions of securities or commodities held in connection with a trading business, if the partnership made a mark-to-market election (see page 4), (d) involuntary conversions (other than from casualties or thefts), and (e) the disposition of noncapital assets (other than inventory or property held primarily for sale to customers in the ordinary course of a trade or business).
- Use **Form 4684**, Casualties and Thefts, to report involuntary conversions of property due to a casualty or theft.
- Gains and losses from section 1256 contracts and straddles are reported on **Form 6781**, Gains and Losses From Section 1256 Contracts and Straddles.
- An exchange of business or investment property for property of a like kind is reported on **Form 8824**, Like-Kind Exchanges.
- Transactions by a securities dealer. See section 1236.
- See **Pub. 550**, Investment Income and Expenses, for information on bonds and other debt instruments.
- For certain real estate subdivided for sale that may be considered a capital asset, see section 1237.
- Gain on the sale of depreciable property to a more than 50%-owned entity, or to a trust in which the partnership is a beneficiary, is treated as ordinary gain.
- For liquidating distributions from a corporation, see Pub. 550.
- See section 1248 for gain on the sale or exchange of stock in certain foreign corporations.
- For gain or loss on options to buy or sell, including closing transactions, see Pub. 550.
- Gain or loss from a short sale of property. See Pub. 550 for details.
- For undistributed capital gains from a regulated investment company or a real estate investment trust, the partnership will receive information on Form 2439.
- See section 84 for the transfer of property to a political organization if the FMV of the property exceeds the partnership's adjusted basis in such property.
- Any loss on the disposition of converted wetland or highly erodible cropland that is first used for farming after March 1, 1986, is reported as a long-term capital loss on Schedule D, but any gain on such a disposition is reported as ordinary income on Form 4797. See section 1257 for details.
- See Rev. Rul. 84-111, 1984-2 C.B. 88, for the transfer of partnership assets and liabilities to a newly formed corporation in exchange for all of its stock.
- See section 897 for the disposition of foreign investment in a U.S. real property interest.
- Any loss from a sale or exchange of property between the partnership and certain related persons is not allowed, except for distributions in complete liquidation of a corporation. See sections 267 and 707(b) for details.
- Any loss from securities that are capital assets that become worthless during the year is treated as a loss from the sale or exchange of a capital asset on the last day of the tax year.
- Gain from the sale or exchange of stock in a collapsible corporation is not a capital gain. See section 341.
- Nonrecognition of gain on sale of stock to an employee stock ownership plan (ESOP) or an eligible cooperative. See section 1042 and Temporary Regulations section 1.1042-1T for rules under which the partnership may elect not to recognize gain from the sale of certain stock to an ESOP or an eligible cooperative.
- A nonbusiness bad debt must be treated as a short-term capital loss and can be deducted only in the year the debt becomes totally worthless. For each bad debt, enter the name of the debtor and "Schedule Attached" in column (a) of line 1 and the amount of the bad debt as a loss in column (f). Also attach a statement of facts to support each bad debt deduction.
- Any loss from a wash sale of stock or securities (including contracts or options to acquire or sell stock or securities) cannot be deducted unless the partnership is a dealer in stock or securities and the loss was sustained in a transaction made in the ordinary course of the partnership's trade or business. A wash sale occurs if the partnership acquires (by purchase or exchange), or has a contract or option to acquire,

substantially identical stock or securities within 30 days before or after the date of the sale or exchange. See section 1091 for more information.

- If the partnership sold property at a gain and it will receive a payment in a tax year after the year of sale, it generally must report the sale on the installment method unless it elects not to. However, the installment method may not be used to report sales of stock or securities traded on an established securities market. Use **Form 6252**, Installment Sale Income, to report the sale on the installment method. Also use Form 6252 to report any payment received during the tax year from a sale made in an earlier year that was reported on the installment method.

If the partnership wants to **elect out** of the installment method, it must report the full amount of the gain on a timely filed return (including extensions). If the partnership filed Form 1065-B on time, the election may be made on an amended return filed no later than 6 months after the due date (excluding extensions) of the original return. Write "See attached Form 8082 for AAR per IRC section 6251; Filed pursuant to section 301.9100-2" in the top margin of the amended return, and file it at the same address the original return was filed. See **Administrative Adjustment Requests** on page 5 for details.

- A sale or other disposition of an interest in a partnership owning unrealized receivables or inventory items may result in ordinary gain or loss. See **Pub. 541**, Partnerships, for more details.
- Certain constructive ownership transactions. Gain in excess of the gain that would have been recognized if the partnership had held a financial asset directly during the term of a derivative contract must be treated as ordinary income. See section 1260 for details.

**Election to recognize gain on assets held on January 1, 2001.** Partnerships may elect to treat certain assets held on January 1, 2001, as having been sold and then reacquired on the same date. The purpose of the election is to make the asset eligible for an 18% (instead of 20%) capital gain tax rate upon future disposition. The 18% rate is applicable to the extent the gain would otherwise be taxed to the partner at 20% if the holding period of the asset begins after December 31, 2000, and the asset is held for more than five years.

Any readily tradable stock (that is a capital asset) not sold before January 2, 2001, for which the election is made is deemed to have been sold on January 2, 2001, at its closing market price on that date and reacquired on that date for the same amount. For this purpose, readily tradable stock includes shares issued by an open-end mutual fund. Any other capital asset held on January 1, 2001, for

which the election is made is deemed to have been sold and reacquired on January 1, 2001, for its fair market value on that date. Any gain on a deemed sale must be recognized. A loss from a deemed sale is **not** allowed in any tax year, but the asset will be eligible for the 18% rate on future gain. The basis in the reacquired asset is its closing market price or fair market value, whichever applies, on the date of the deemed sale, whether the deemed sale results in a gain or unallowed loss.

If the partnership makes the election with respect to its interest in another pass-through entity and that pass-through entity makes the election with respect to assets it holds, that pass-through entity's election will be considered to immediately precede the partnership's election for deemed sales that occur on the same day. For purposes of this election, pass-through entities include mutual funds (or other regulated investment companies), real estate investment trusts (REITs), partnerships, estates, trusts and common trust funds.

To make the election, report the deemed sale(s) on Schedule D for the tax year that includes the date of the deemed sale. If the deemed sale results in a loss, enter zero instead of the amount of the loss. Make the election on a share-by-share or asset-by-asset basis. Attach a statement to the return stating that the partnership is making an election under section 311 of the Taxpayer Relief Act of 1997 and listing the asset(s) for which it is making the election. The partnership must file the tax return no later than its due date (including extensions). However, if the partnership timely filed its tax return without making the election for any asset, it can still make the election by filing an amended return within 6 months of the original due date (excluding extensions). Write "See attached Form 8082 for AAR per IRC section 6251; Election Under Section 311 of the Taxpayer Relief Act of 1997" in the top margin of the amended return. Once made, an election for any asset is irrevocable. See **Administrative Adjustment Requests** on page 5 for details.

**Note:** *This election does not apply to any asset which is disposed of (in a transaction in which gain or loss is recognized in whole or in part) before the close of the 1-year period beginning on the date that the asset would have been treated as sold under this election.*

**Constructive sale treatment for certain appreciated positions.** Generally, the partnership must recognize gain (but not loss) on the date it enters into a constructive sale of any appreciated position in stock, a partnership interest, or certain debt instruments as if the position were disposed of at fair market value on that date.

The partnership is treated as making a constructive sale of an appreciated position when it (or a related person, in some cases) does **one** of the following:

- Enters into a short sale of the same or substantially identical property (that is, a "short sale against the box").
- Enters into an offsetting notional principal contract relating to the same or substantially identical property.
- Enters into a futures or forward contract to deliver the same or substantially identical property.
- Acquires the same or substantially identical property (if the appreciated position is a short sale, offsetting notional principal contract, or a futures or forward contract).

**Exception.** Generally, constructive sale treatment does not apply if:

- The partnership closed the transaction before the end of the 30th day after the end of the year in which it was entered into,
- The partnership held the appreciated position to which the transaction relates throughout the 60-day period starting on the date the transaction was closed, **and**
- At no time during that 60-day period was the partnership's risk of loss reduced by holding certain other positions.

For details and other exceptions to these rules, see Pub. 550.

#### **Special rules for traders in securities.**

**Traders in securities** are engaged in the business of buying and selling securities for their own account. To be engaged in business as a trader in securities:

- The partnership must seek to **profit from daily market movements** in the prices of securities and not from dividends, interest, or capital appreciation.
- The partnership's trading activity must be **substantial**.
- The partnership must carry on the activity with **continuity and regularity**.

The following facts and circumstances should be considered in determining if a partnership's activity is a business:

- Typical holding periods for securities bought and sold.
- The frequency and dollar amount of the partnership's trades during the year.
- The extent to which the partners pursue the activity to produce income for a livelihood.
- The amount of time devoted to the activity.

Like an investor, a trader must report each sale of securities (taking into account commissions and any other costs of acquiring or disposing of the securities) on Schedule D or on an attached statement containing all the same information for each sale in a similar format. However, if a trader made the mark-to-market election (see page 4), each transaction is reported in Part II of Form 4797 instead of Schedule D. Regardless of whether a trader reports its

gains and losses on Schedule D or Form 4797, the gain or loss from the disposition of securities is not taken into account when figuring net earnings from self-employment on Schedules K and K-1. See section 1402(i) for an exception that applies to section 1256 contracts.

The limitation on investment interest expense that applies to investors does not apply to interest paid or incurred in a trading business. A trader reports interest expense and other expenses (excluding commissions and other costs of acquiring or disposing of securities) from a trading business in Part I of Form 1065-B.

A trader also may hold securities for investment. The rules for investors generally will apply to those securities. Allocate interest and other expenses between the partnership's trading business and its investment securities. Investment interest expense is reported on line 7 of Part II, Form 1065-B.

#### **Rollover of gain from qualified stock.**

If the partnership sold qualified small business stock (defined below) it held for more than 6 months, it may postpone gain if it purchased other qualified small business stock during the 60-day period that began on the date of the sale. The partnership must recognize gain to the extent the sale proceeds exceed the cost of the replacement stock. Reduce the basis of the replacement stock by any postponed gain.

If the partnership chooses to postpone gain, report the entire gain realized on the sale on line 1 or 5. Directly below the line on which the partnership reported the gain, enter in column (a) "Section 1045 Rollover" and enter as a (loss) in column (f) the amount of the postponed gain.



*The partnership also must separately state the amount of the gain rolled over on qualified stock under section 1045 on an attachment to Form 1065-B, Schedule K, line 16, because each partner must determine if he or she qualifies for the rollover at the partner level. Also, the partnership must separately state on that line (and not on Schedule D) any gain that would qualify for the section 1045 rollover at the partner level instead of the partnership level (because a partner was entitled to purchase replacement stock) and any gain on qualified stock that could qualify for the 50% exclusion under section 1202.*

To be **qualified small business stock**, the stock must meet **all** of the following tests:

- It must be stock in a C corporation (that is not S corporation stock).
- It must have been originally issued after August 10, 1993.
- As of the date the stock was issued, the corporation was a qualified small business. A qualified small business is a domestic C corporation with total gross assets of \$50 million or less **(a)** at all

times after August 9, 1993, and before the stock was issued, and (b) immediately after the stock was issued. Gross assets include those of any predecessor of the corporation. All corporations that are members of the same parent-subsidiary controlled group are treated as one corporation.

- The partnership must have acquired the stock at its original issue (either directly or through an underwriter), either in exchange for money or other property or as pay for services (other than as an underwriter) to the corporation. In certain cases, the partnership may meet the test if it acquired the stock from another person who met this test (such as by gift or inheritance) or through a conversion or exchange of qualified small business stock held by the partnership.

- During substantially all the time the partnership held the stock:

1. The corporation was a C corporation,
2. At least 80% of the value of the corporation's assets were used in the active conduct of one or more qualified businesses (defined below), and
3. The issuing corporation **was not** a foreign corporation, domestic international sales corporation (DISC), former DISC, interest charge domestic international sales corporation (IC-DISC), former IC-DISC, corporation that has made (or that has a subsidiary that has made) a section 936 election, regulated investment company (RIC), real estate investment trust (REIT), real estate mortgage investment conduit (REMIC), financial asset securitization investment trust (FASIT), or cooperative.

**Note:** A specialized small business investment company (SSBIC) is treated as having met test 2 above.

A **qualified business** is any business **other than** the following:

- One involving services performed in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, or brokerage services.
- One whose principal asset is the reputation or skill of one or more employees.
- Any banking, insurance, financing, leasing, investing, or similar business.
- Any farming business (including raising or harvesting of trees).
- Any business involving the production of products for which percentage depletion can be claimed.
- Any business of operating a hotel, motel, restaurant, or similar business.

## Specific Instructions

### Columns (b) and (c)—Date Acquired and Date Sold

Use the trade dates for date acquired and date sold for stocks and bonds traded on an exchange or over-the-counter market.

### Column (d)—Sales Price

Enter in this column either the gross sales price or the net sales price from the sale. On sales of stocks and bonds, report the gross amount as reported to the partnership by the partnership's broker on **Form 1099-B**, Proceeds From Broker and Barter Exchange Transactions, or similar statement. However, if the broker advised the partnership that gross proceeds (gross sales price) less commissions and option premiums were reported to the IRS, enter that net amount in column (d).

### Column (e)—Cost or Other Basis

In general, the cost or other basis is the cost of the property plus purchase commissions and improvements and minus depreciation, amortization, and depletion. If the partnership got the property in a tax-free exchange, involuntary conversion, or wash sale of stock, it may not be able to use the actual cash cost as the basis. If the partnership does not use cash cost, attach an explanation of the basis.

If the partnership sold stock, adjust the basis by subtracting all the stock-related nontaxable distributions received before the sale. This includes nontaxable distributions from utility company stock and mutual funds. Also adjust the basis for any stock splits or stock dividends.

If a charitable contribution deduction is allowed because of a bargain sale of property to a charitable organization, the adjusted basis for purposes of determining gain from the sale is the amount which has the same ratio to the adjusted basis as the amount realized has to the fair market value.

See section 852(f) for the treatment of certain load charges incurred in acquiring stock in a mutual fund with a reinvestment right.

If the gross sales price is reported in column (d), increase the cost or other basis by any expense of sale, such as broker's fees, commissions, or option premiums, before making an entry in column (e).

For more details, see **Pub. 551**, Basis of Assets.

### Column (f)—Gain or (Loss)

Make a separate entry in this column for each transaction reported on lines 1 and 5 and any other lines that apply to the partnership. For lines 1 and 5, subtract the amount in column (e) from the amount in column (d). Enter negative amounts in parentheses.

### Column (g)—28% Rate Gain or (Loss)

Enter in column (g) **only** the amount, if any, from Part II, column (f), that is from collectibles gains and losses. A **collectibles gain or 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, metals (such as gold, silver, and 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).

### Capital Gains and Losses From Other Partnerships, Estates, and Trusts

See the Schedule K-1 or other information supplied to you by the other partnership, estate, or trust. Enter the gains (losses) on line 1 or 5, whichever applies. **Do not** complete columns (a) through (e). Instead, write "From Schedule K-1 (Form 1065, 1065-B, or 1041)" across these columns.

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## Schedules K and K-1 — Partners' Shares of Income, Credits, Deductions, etc.

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### Purpose of Schedules

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** (page 4 of Form 1065-B) is a summary schedule of all the partners' shares of the partnership's income, credits, deductions, etc.

**Schedule K-1** (Form 1065-B) shows each partner's separate share. Attach a copy of each Schedule K-1 to the Form 1065-B filed with the IRS; keep a copy with a copy of 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-B) or specific instructions for

each item reported on the partner's Schedule K-1 (Form 1065-B).

## 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, or if it contains only those boxes the taxpayer is required to use. 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-B) or other prepared specific instructions.

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, W:CAR:MP:FP:S:SP, 1111 Constitution Avenue, NW, 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 of Rev. Proc. 2001-45, 2001-37 I.R.B. 227.

## How Income Is Shared Among Partners

Generally, allocate shares of income, gain, loss, deduction, or credit among the partners according to the partnership agreement for sharing income or loss. However, partners may agree to allocate specific items in a ratio different from the ratio for sharing income or loss.

In determining the amounts required to be separately taken into account by a partner, those provisions of the large partnership rules governing computation of taxable income are applied separately with respect to that partner by taking into account that partner's distributive share of the partnership's items of income, gain, loss, deduction, or credit. This rule permits partnerships to make otherwise valid special allocations of partnership items to partners.

Report the specially allocated items in the appropriate box of the applicable partner's Schedule K-1 and the total on the appropriate line of Schedule K, instead of on Parts I or II of Form 1065-B or Schedules A or D. For example, specially allocated net capital gain from passive activities is entered in box 3 of Schedule K-1, and the total is entered on line 3c of Schedule K, along with any net capital gain from line 18 of Schedule D (Form 1065-B).

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. See Pub. 541 for more details.

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 (for example, 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 8 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.

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## Specific Instructions for Schedules K and K-1

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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.

However, if a foreign partnership meets each of the following four requirements, it is not required to file or provide Schedule K-1 for foreign partners (unless the foreign partner is a passthrough 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 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.
- The partnership is not a withholding foreign partnership as defined in Regulations section 1.1441-5(c).

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.

On each Schedule K-1, enter the names, addresses, and identifying numbers of the partner and partnership and the partner's distributive share of each item.

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 one. Certain aliens who are not eligible to obtain an SSN can apply for an ITIN on **Form W-7, Application for IRS Individual Taxpayer Identification Number**.

If a husband and wife each had an interest in the partnership, prepare a separate Schedule K-1 for each of them. If a husband and wife held an interest together, prepare one Schedule K-1 if the two of them are considered to be one partner.

Using the codes beginning on page 30, box 9 of Schedule K-1 can be used to report several items. If more space is needed, include the information in an attachment to box 9.

**Due date.** Unlike other partnerships, an electing large partnership must provide a Schedule K-1 to each partner by the first **March 15** following the close of the partnership's tax year. For calendar year 2001 partnerships, the due date is March 15, 2002.

## Partner's Share of Liabilities (Schedule K-1)

Enter each partner's share of:

- Nonrecourse liabilities.
- Partnership-level qualified nonrecourse financing.

- Other liabilities.

“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 liabilities for **each** activity. See **Pub. 925**, *Passive Activity and At-Risk Rules*, 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 the 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 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.

### Tax Shelter Registration Number (Schedule K-1)

If the partnership is a registration-required tax shelter or has invested in a registration-required tax shelter, it must enter the tax shelter registration number on Schedule K-1. Also, a partnership that has invested in a registration-required tax shelter must furnish a copy of its Form 8271 to its partners. See Form 8271 for more details.

**Note:** *The following line numbers correspond with Schedule K. However, each line instruction also provides reporting information for Schedule K-1. Letter codes required for entries in box 9 of Schedule K-1 begin on page 30.*

### Line 1—Taxable Income (Loss) From Passive Loss Limitation Activities

Enter the amount from Form 1065-B, page 1, line 25, on Schedule K, line 1a.

Enter the income or 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.

Allocate the income (loss) from passive loss limitation activities (line 1a of Schedule K) to interests held as a general partner as follows:

**Step 1.** Allocate the amount reported on line 1a to the following categories:

- Trade or business activities.
- Rental real estate activities.
- Other rental activities.

**Step 2.** Report on lines 1b(1), 1b(2), and 1b(3) of Schedule K that portion of each amount from Step 1 that will be allocated to interests held as a general partner (the combined distributive shares and any separate allocations for all general partner interests).

General partners in an electing large partnership must separately account for any items attributable to passive loss limitation activities to the extent necessary to comply with the passive activity rules.

Because general partners must comply with the passive activity rules, report the information on lines 1b(1), 1b(2), and 1b(3) of Schedule K separately for each activity of the partnership using Codes A1, B1, and C1 in box 9 of Schedule K-1. The remaining amount on line 1d of Schedule K is reported in box 1 of Schedule K-1 for limited partners (including interests held as a limited partner by general partners).

### Line 2—Taxable Income (Loss) From Other Activities

On Schedule K enter the amount from Form 1065-B, Part II, line 13. Report amounts for both general and limited partners in box 2 of Schedule K-1.



**Line 3—Net Capital Gain (Loss) From Passive Loss Limitation Activities**

On Schedule K, line 3a, enter the amount from Schedule D (Form 1065-B), line 20. Report the amount allocated to interests held as a limited partner in box 9, Code D, of Schedule K-1.

On Schedule K, line 3b, enter the amount from line 8 of the worksheet below. This is **qualified 5-year gain**. Report this amount to all partners using Code Q in box 9 of Schedule K-1.

On Schedule K, line 3c, enter the amount from Schedule D, line 18. Report the amount allocated to interests held as a limited partner in box 3 of Schedule K-1.

Because general partners must comply with the passive activity rules, report the line 3a and 3c amounts allocated to interests held as a general partner separately for each activity using Codes A2 and A3, B2 and B3, and C2 and C3, in box 9 of Schedule K-1.

**Line 4—Net Capital Gain (Loss) From Other Activities**

On Schedule K, line 4a, enter the amount from Schedule D (Form 1065-B), line 23. Report this amount to all partners in box 9, Code E of Schedule K-1.

On Schedule K, line 4b, enter the amount from line 9 of the worksheet below. This is **qualified 5-year gain**. Report this amount to all partners using Code Q in box 9 of Schedule K-1.

On Schedule K, line 4c, enter the amount from Schedule D, line 22. Report this amount to all partners in box 4 of Schedule K-1.

**Lines 5 and 6**

For electing large partnerships, the alternative minimum tax (AMT) adjustments and preferences are combined at the partnership level. The partnership computes net AMT adjustments separately for passive loss limitation activities and other activities.

In determining a partner's alternative minimum taxable income, a partner's distributive share of any net AMT adjustment is taken into account instead of making separate AMT adjustments for different partnership items. The net AMT adjustment is determined by using the adjustments and preferences applicable to individuals for partners other than corporations, and by using the adjustments and preferences applicable to corporations for corporate partners. See **Form 6251**, Alternative Minimum Tax—Individuals, and **Form 4626**,

Alternative Minimum Tax—Corporations, to figure the partnership's AMT adjustments and preferences.

The net passive AMT adjustment is reported on line 5 of Schedule K and in box 5 of Schedule K-1 for interests held as a limited partner. Because general partners must comply with the passive activity rules, report the amounts allocated to interests held as a general partner separately for each activity in box 9 using Codes A6, B7, and C5.

The net other AMT adjustment is reported on line 6 of Schedule K and in box 6 of Schedule K-1 for all partners.

**Line 7—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-B, Part I, line 13; on a schedule attached to line 5, Part I; or on Form 8825; and
- Payments the partnership must capitalize. See the instructions for line 13 on page 14.

Report guaranteed payments to the partners receiving them in box 9 of Schedule K-1 using Code F.

**Line 8—Income From Discharge of Indebtedness**

Income from the discharge of indebtedness is separately reported to each partner. In addition, the section 108 rules governing the income are the same as for other partnerships. Elections under section 108 are made by each partner separately.

Enter the income from discharge of indebtedness on line 8 of Schedule K and in box 9 of Schedule K-1 for each partner using Code G.

**Line 9—Tax-Exempt Interest Income**

Enter on line 9 tax-exempt interest income, including any exempt-interest dividends received from a mutual fund or other regulated investment company. Individuals must report this amount on line 8b of Form 1040. The adjusted basis of the partner's interest is increased by the amount shown on this line under section 705(a)(1)(B). Report this amount to partners in box 9 of Schedule K-1 using Code H.

**Line 10—General Credits**

The term **general credits** means any credit other than the low-income housing credit, the rehabilitation credit from rental real estate activities, the credit for producing fuel from a nonconventional source, and the foreign tax credit.

General credits are separately reported to partners as a single item. A partner's distributive share of general

**Qualified 5-Year Gain Worksheet**  
(Keep for your records.)

1.	Enter the total gains reported on line 5, column (f), of Schedule D from dispositions of property held more than 5 years. <b>Do not</b> reduce these gains by any losses . . . . .	1.	_____
2.	Enter the total of all gains from dispositions of property held more than 5 years from Form 4797, Part I, but <b>only</b> if Form 4797, line 7, is more than zero. <b>Do not</b> reduce these gains by any losses . . . . .	2.	_____
3.	Enter the total of all capital gains from dispositions of property held more than 5 years from Form 4684, line 4; Form 6252; Form 6781, Part II; and Form 8824. <b>Do not</b> reduce these gains by any losses . . . . .	3.	_____
4.	Enter the total of any qualified 5-year gain reported to the partnership from <b>(a)</b> a RIC or a REIT or <b>(b)</b> a partnership, S corporation, estate, or trust ( <b>do not</b> include gains from section 1231 property; take them into account on line 2 above, but <b>only</b> if Form 4797, line 7, is more than zero) . . . . .	4.	_____
5.	Add lines 1 through 4 . . . . .	5.	_____
6.	Enter the part, if any, of the gain on line 5 that is attributable to section 1202 qualified small business stock or 28% rate gain or included on line 6, 10, or 11 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> on page 30 . . . . .	6.	_____
7.	Subtract line 6 from line 5 . . . . .	7.	_____
8.	Redetermine the amount on line 7 by taking into account only gains from passive loss limitation activities. Enter on Schedule K, line 3b. Report this amount to all partners using Code Q in box 9 of Schedule K-1 . . . . .	8.	_____
9.	Subtract line 8 from line 7. Enter on Schedule K, line 4b. Report this amount to all partners using Code Q in box 9 of Schedule K-1 . . . . .	9.	_____

**Note:** If amounts are reported on both lines 8 and 9, add them together and report them as a single amount in box 9 of Schedule K-1 using Code Q.

credits is taken into account as a current year general business credit. The tax liability limit for the general business credit is applied at the partner level.

Combine the following credits and report them under "general credits" on line 10.

- Credit for backup withholding on dividends, interest, and other types of income.
- Qualified electric vehicle credit (Form 8834).
- Unused credits from cooperatives.
- Investment credit (other than rehabilitation credits from rental real estate activities) (Form 3468).
- Work opportunity credit (Form 5884).
- Welfare-to-work credit (Form 8861).
- Credit for alcohol used as fuel (Form 6478).
- Credit for increasing research activities (Form 6765).
- Enhanced oil recovery credit (Form 8830).
- Disabled access credit (Form 8826).
- Renewable electricity production credit (Form 8835).
- Empowerment zone employment credit (Form 8844).
- Indian employment credit (Form 8845).
- Credit for employer social security and Medicare taxes paid on certain employee tips (Form 8846).
- Orphan drug credit (Form 8820).
- New markets credit (Form 8874).
- Credit for contributions to selected community development corporations (Form 8847).
- General credits from other electing large partnerships.

**Exception:** *The refundable credit for Federal tax paid on fuels and the refund or credit for tax paid on undistributed capital gains of a regulated investment company or a real estate investment trust are allowed to the partnership. Thus, they are not separately reported to partners.*

General credits are reported as a single figure on line 10 of Schedule K and are reported in box 7 of Schedule K-1 for limited partners. However, for general partners, credits allocable to passive loss limitation activities must be separately stated for each trade or business activity, rental real estate activity, and rental activity other than rental real estate. Provide this information to general partners in box 9 of Schedule K-1 using Codes A4, B4, and C4 so they can comply with section 469.

## Lines 11 and 12

Section 42 provides a credit that may be claimed by owners of low-income residential rental buildings. If the partners are eligible to take the low-income housing credit, complete and attach **Form 8586**, Low-Income Housing Credit; **Form**

**8609**, Low-Income Housing Credit Allocation Certification; and **Schedule A (Form 8609)**, Annual Statement, to Form 1065-B.

Report on line 11 the low-income housing credit for property placed in service after 1989.

Because the rehabilitation credit from rental real estate activities and low-income housing credit for property placed in service before 1990 that is attributable to additions to qualified basis of property are subject to the same passive activity rules, they are combined and reported on line 12. Complete and attach Form 8586 for the low-income housing credit. For the rehabilitation credit, complete the lines of **Form 3468**, Investment Credit, that apply to qualified rehabilitation expenditures for property related to rental real estate activities of the partnership. See Form 3468 for details on qualified rehabilitation expenditures. Attach Form 3468 to Form 1065-B.

Report amounts from line 11 in box 8 of Schedule K-1 for interests held as a limited partner. However, for interests held as a general partner, credits allocable to passive loss limitation activities must be separately stated for each rental real estate activity. Provide this information in box 9 of Schedule K-1 using Code B5 so general partners can comply with section 469.

For limited partners, report any low-income housing and rehabilitation credits from rental real estate activities reported on line 12 as a single rehabilitation credit in box 9 of Schedule K-1 using Code I. However, for general partners, credits allocable to passive loss limitation activities must be separately stated for each rental real estate activity. For general partners, combine low-income housing and rehabilitation credits reported on line 12 as a single rehabilitation credit and allocate it to partnership activities as explained above. Report this information in box 9 of Schedule K-1 using Code B6 so general partners can comply with section 469.

**Note:** *Any rehabilitation credits from an activity other than a rental real estate activity are included in **general credits** reported on line 10 of Schedule K.*

## Line 13

The nonconventional source fuel credit is figured at the partnership level and then is apportioned to the partners based on their distributive shares of partnership income attributable to sales of qualified fuels. Attach a separate schedule to the return to show the computation of the credit. See section 29 for more information. For interests held as a limited partner, report

each partner's share of the credit in box 9 of Schedule K-1 using Code J. However, for interests held as a general partner, credits allocable to passive loss limitation activities must be separately stated for each trade or business activity. Provide this information for general partners in box 9 of Schedule K-1 using Code A5 so they can comply with section 469.

## Line 14—Net Earnings From Self-Employment

**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 dividend or interest income is 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.

**Schedule K.** Enter on line 14a the amount from line 5 of the worksheet on page 27. On line 14b enter the amount of gross nonfarm income from self-employment.

**Note:** *For purposes of self-employment tax, no income from an electing large partnership is treated as fishing or farming income.*

**Schedules K-1.** Do not complete box 9 for any partner that is an estate, trust, corporation, exempt organization, or individual retirement arrangement (IRA).

Using Code K1, enter in box 9 of Schedule K-1 each individual general partner's share of the amount shown on line 5 of the worksheet on page 27 and each individual limited partner's share of the amount shown on line 4c of the worksheet. Enter the partner's share of gross nonfarm income in box 9 using Code K2.

**Worksheet Instructions**

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

**Line 4a.** Include in the amount on line 4a any guaranteed payments to partners reported on Schedule K, line 7, and derived from a trade or business as defined in section 1402(c). Also include other ordinary income and expense items reported on Schedules K and K-1 that are used to figure self-employment earnings under section 1402.

**Line 15—Foreign Tax Credit Information**

Lines 15a through 15h must be completed if the partnership has foreign income, deductions, or losses or has paid or accrued foreign taxes. See **Pub. 514**, Foreign Tax Credit for Individuals, for more information.

**Line 15a—Name of Foreign Country or U.S. Possession**

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 schedule for each country for lines 15a through 15h.

Using Code L1, enter this information in box 9 of Schedule K-1 or on an attached schedule.

**Line 15b—Gross Income From All Sources**

Enter the partnership’s gross income from all sources (both U.S. and foreign source).

Using Code L2, enter this information in box 9 of Schedule K-1 or on an attached schedule.

**Line 15c—Gross Income Sourced at Partner Level**

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 schedule showing the following information:

- The amount of this gross income (without regard to its source) in each category identified in the instructions for line 15d, 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 **Sales or Exchanges of Certain Personal Property** in Pub. 514 and section 865.

- Specify the net foreign source capital gain or loss within each separate limitation category shown below in the instructions for line 15d(2). Also, in the case of noncorporate partners, separately identify the net foreign source gain or loss within each separate limitation category that is 28% rate gain or loss, unrecaptured section 1250 gain, and qualified 5-year gain.

Using Code L3, enter this information in box 9 of Schedule K-1 or on an attached schedule.

**Line 15d—Foreign Gross Income Sourced at Partnership Level**

Separately report gross income from sources outside the United States by category of income as follows. For partnership and corporate partners only, attach a schedule identifying the total amount of foreign gross income in each category of income attributable to foreign branches. See Pub. 514 for information on the categories of income.

**Line 15d(1).** Passive foreign source income.

Using Code L4(a), enter this information in box 9 of Schedule K-1 or on an attached schedule.

**Line 15d(2).** Attach a schedule showing the amount of foreign source income included in each of the following listed categories of income:

- Financial services income;
- High withholding tax interest;
- Shipping income;

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

<b>1a</b> Income (loss) from Schedule K, line 1b(1) . . . . .	<b>1a</b>		
<b>b</b> <b>Certain</b> rental real estate activity income (loss) from Schedule K, line 1b(2) (see instructions) . . . . .	<b>1b</b>		
<b>c</b> Other rental activity income (loss) from Schedule K, line 1b(3) . . . . .	<b>1c</b>		
<b>d</b> Net loss from Form 4797, Part II, line 18, included on lines 1a through 1c above. Enter as a positive amount . . . . .	<b>1d</b>		
<b>e</b> Combine lines 1a through 1d . . . . .	<b>1e</b>		
<b>2</b> Net gain from Form 4797, Part II, line 18, included on lines 1a through 1c above . . . . .	<b>2</b>		
<b>3a</b> Subtract line 2 from line 1e. If line 1e is a loss, increase the loss on line 1e by the amount on line 2 . . . . .	<b>3a</b>		
<b>b</b> Part of line 3a allocated to estates, trusts, corporations, exempt organizations, and IRAs . . . . .	<b>3b</b>		
<b>c</b> 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 9 of Schedule K-1 . . . . .			<b>3c</b>
<b>4a</b> Guaranteed payments to partners (Schedule K, line 7) derived from a trade or business as defined in section 1402(c) (see instructions) . . . . .	<b>4a</b>		
<b>b</b> Part of line 4a allocated to individual limited partners for <b>other than</b> services and to estates, trusts, corporations, exempt organizations, and IRAs . . . . .	<b>4b</b>		
<b>c</b> Subtract line 4b from line 4a. Include each individual general partner’s share and each individual limited partner’s share in box 9 of Schedule K-1 . . . . .			<b>4c</b>
<b>5</b> Net earnings (loss) from self-employment. Combine lines 3c and 4c. Enter here and on Schedule K, line 14a . . . . .			<b>5</b>

- Dividends from each noncontrolled section 902 corporation;
  - Dividends from a DISC, a former DISC, an IC-DISC, or a former IC-DISC;
  - Distributions from a foreign sales corporation (FSC) or a former FSC;
  - Section 901(j) income; and
  - Certain income re-sourced by treaty.
- Using Code L4(b), enter this information in box 9 of Schedule K-1 or on an attached schedule.

**Line 15d(3).** General limitation foreign source income (all other foreign source income).

Using Code L4(c), enter this information in box 9 of Schedule K-1 or on an attached schedule.

### Line 15e—Deductions Allocated and Apportioned at Partner Level

Enter on line 15e(1) 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 15f(1) through (3).

Using Code L5, enter the total interest expense in box 9 of Schedule K-1 or on an attached schedule.

On line 15e(2), enter the total of all other deductions or losses that are required to be allocated at the partner level. For example, include on line 15e(2) research and experimental expenditures (see Regulations section 1.861-17(f)). Using Code L6, enter this information in box 9 of Schedule K-1 or on an attached schedule.

### Line 15f—Deductions Allocated and Apportioned at Partnership Level to Foreign Source Income

Separately report partnership deductions that are apportioned at the partnership level to (1) passive foreign source income, (2) each of the listed foreign categories of income, and (3) general limitation foreign source income (see the instructions for line 15d). See Pub. 514 for more information.

For partnership and corporate partners only, attach a schedule identifying the total amount of deductions apportioned to each category of income shown in the instructions for line 15d that are attributable to foreign branches.

Using Code L7(a) for passive foreign source income, Code L7(b) for each listed foreign category of income, and Code L7(c) for the general limitation foreign source income, enter this information in box 9 of Schedule K-1 or on an attached schedule.

### Line 15g—Total Foreign Taxes

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). Translate these amounts into U.S. dollars by using the applicable exchange rate (see Pub. 514).

Attach a schedule 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 line 15d).

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.

Using Code L8(a) for total foreign taxes paid, and Code L8(b) for total foreign taxes accrued, enter this information in box 9 of Schedule K-1 or on an attached schedule.

### Line 15h—Reduction in Taxes Available for Credit

Attach a schedule showing the total reductions in taxes available for credit.

Separately show 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).

Using Code L9 for reduction in taxes available for credit, enter this information in box 9 of Schedule K-1 or on an attached schedule.

### Line 16

For line 16, attach a schedule listing other items and amounts required to be reported separately to partners. Enter each partner's share in box 9 or on an attached schedule to Schedule K-1. Examples of items to report include the following:

- Any information a partnership must separately report to its disqualified partners regarding its oil and gas activities. See **Partnerships Holding Oil and Gas Properties** on page 11 for more information. Enter this information as Code M in box 9 of Schedule K-1 or on an attached schedule.

- Other tax-exempt income. On the schedule for line 16, enter all income of the partnership exempt from tax other than tax-exempt interest income (e.g., life insurance proceeds). The adjusted basis of the partner's interest is increased by the amount shown on this line under section 705(a)(1)(B). Enter this amount as Code N1 in box 9 of Schedule K-1.

- Nondeductible expenses. Enter nondeductible expenses paid or incurred by the partnership. Do not include capital expenditures or items the deduction for which is deferred to a later tax year. The adjusted basis of the partner's interest is decreased by the amount shown on this line under section 705(a)(2)(B). Enter this amount as Code N2 in box 9 of Schedule K-1.

- Unrelated business taxable income. Any information a partner that is a tax-exempt organization may need to figure that partner's 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**, for more information. Enter this amount as Code N3 in box 9 of Schedule K-1.

- Amounts paid during the tax year for health insurance coverage for a partner (including that partner's spouse and dependents). For 2001, a partner may be allowed to deduct up to 60% of such amounts on Form 1040, line 28. Enter this amount as Code N4 in box 9 of Schedule K-1.

- Distributions of money (cash and marketable securities). Enter the total distributions to each partner of cash and marketable securities that are treated as money under section 731(c)(1). 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 this amount includes marketable securities treated as money, state separately on an attachment (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). Enter this information as Code N5 in box 9 of Schedule K-1 or on an attached schedule.

- Distributions of property other than money. Enter the total distributions of property other than money. In computing the amount of the distribution, use the adjusted basis of the property to the partnership immediately before the distribution. On an attachment also include the adjusted basis and FMV of

each property distributed. Enter this information as Code N6 in box 9 of Schedule K-1 or on an attached schedule.

- Gain from the sale or exchange of qualified small business stock (as defined in the instructions for Schedule D) that is eligible for the 50% section 1202 exclusion. The section 1202 exclusion applies only to qualified small business stock issued after August 10, 1993, and 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 with Code N7 in box 9 of Schedule K-1. Each partner will determine if he or she qualifies for the section 1202 exclusion. Report with Code N7 on an attachment to Schedule K-1 for each sale or exchange the name of the corporation that issued the stock, the partner's share of the partnership's adjusted basis and sales price of the stock, and the dates the 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 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. Corporate partners are not eligible for the section 1045 rollover. Additional limitations apply at the partner level. Report each partner's share of the gain eligible for section 1045 rollover with Code N8 in box 9 of Schedule K-1. Each partner will determine if he or she qualifies for the rollover. Report with Code N8 on an attachment to Schedule K-1 for each sale or exchange the name of the corporation that issued the stock, the partner's share of the partnership's adjusted basis and sales price of the stock, and the dates the stock was bought and sold.

- 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 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 qualified small business stock during the 60-day period that began on the date the

stock was sold by the partnership. Additional limitations apply at the partner level. Report with Code N9 on an attachment to Schedule K-1 for each sale or exchange the name of the corporation that issued the stock, the partner's share of the partnership's adjusted basis and sales price of the stock, and the dates the stock was bought and sold.

- Unrecaptured section 1250 gain. Use the worksheet on page 30 to figure the unrecaptured section 1250 gain.
- Any information needed by a partner to figure the interest due under section 1260(b). If any portion of a constructive ownership transaction was open in any prior year, each partner's tax liability must be increased by the partner's pro rata share of interest due on any deferral of gain recognition. See section 1260(b) for details, including how to figure the interest.
- Extraterritorial income exclusion. See the instructions on page 12 for information that is required to be reported in box 9.
- Any other information a partner may need to file his or her return that is not shown elsewhere on Schedule K-1. Enter this information on an attachment to Schedule K-1.

# Instructions for the Unrecaptured Section 1250 Gain Worksheet

**Lines 1 Through 3.** If the partnership had more than one property described on line 1, complete lines 1 through 3 for each property on a separate worksheet. Enter the total of the line 3 amounts for all properties on line 3 and go to line 4.

**Line 4.** The total unrecaptured section 1250 gain for an installment sale of property held more than 1 year is figured for the year of sale in a manner similar to that used to figure line 3 of the worksheet. However, the 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). However, 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.

## Box 9 Codes (Schedule K-1)

The following codes should be used to describe the information located in box 9.

- Code A1—General partner's taxable income (loss) from trade or business activities.

- Code A2—General partner's net capital gain (loss) from trade or business activities.
- Code A3—General partner's 28% rate gain (loss) from trade or business activities.
- Code A4—General partner's general credits from trade or business activities.
- Code A5—General partner's nonconventional source fuel credit from trade or business activities.
- Code A6—General partner's alternative minimum tax adjustment from trade or business activities.
- Code B1—General partner's taxable income (loss) from rental real estate activities.
- Code B2—General partner's net capital gain (loss) from rental real estate activities.
- Code B3—General partner's 28% rate gain (loss) from rental real estate activities.
- Code B4—General partner's general credits from rental real estate activities.

## Unrecaptured Section 1250 Gain Worksheet—Line 16



If any of the following apply, the partnership does not have to complete all of the worksheet. Instead, follow the instructions below:

- Go to line 4 if the partnership's only unrecaptured section 1250 gain is from an installment sale of trade or business property held more than 1 year that the partnership is reporting on Form 6252.
- Go to line 5 if the partnership's only unrecaptured section 1250 gain is from a Schedule K-1 reporting such gain from another partnership.
- Go to line 10 if the partnership's only unrecaptured section 1250 gain is from the sale or exchange of an interest in another partnership.
- Go to line 11 if the partnership's only unrecaptured section 1250 gain is from a Schedule K-1, Form 1099-DIV, or Form 2439 reporting such gain from an estate, trust, real estate investment trust, or regulated investment company (including a mutual fund).

1. If the partnership had a section 1250 property in Part III of Form 4797 for which there was an entry in Part I of Form 4797 (but not on Form 6252), enter the **smaller** of line 22 or line 24 of Form 4797 for that property. If the partnership had more than one such property, see instructions . . . . . **1.** \_\_\_\_\_
2. Enter the amount from Form 4797, line 26g, for the property for which the partnership made an entry on line 1 . . . . . **2.** \_\_\_\_\_
3. Subtract line 2 from line 1 . . . . . **3.** \_\_\_\_\_
4. Enter the total unrecaptured section 1250 gain included on line 26 or 37 of Form(s) 6252 from installment sales of trade or business property held more than 1 year (see instructions) . . . . . **4.** \_\_\_\_\_
5. Enter the total of any amounts reported to the partnership on Schedules K-1 from another partnership as "unrecaptured section 1250 gain." . . . . . **5.** \_\_\_\_\_
6. Add lines 3 through 5 . . . . . **6.** \_\_\_\_\_
7. Enter the **smaller** of line 6 or the gain, if any, from Form 4797, line 7 **7.** \_\_\_\_\_
8. Enter the amount, if any, from Form 4797, line 8 . . . . . **8.** \_\_\_\_\_
9. Subtract line 8 from line 7. If zero or less, enter -0- . . . . . **9.** \_\_\_\_\_
10. Enter the gain from the sale or exchange of an interest in another 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) . . . . . **10.** \_\_\_\_\_
11. Enter the total of any amounts reported to the partnership on Schedule K-1, Form 1099-DIV, or Form 2439 as "unrecaptured section 1250 gain" from an estate, trust, real estate investment trust, or mutual fund (or other regulated investment company) . . . . . **11.** \_\_\_\_\_
12. Add lines 9 through 11. This is the partnership's "unrecaptured section 1250 gain." Report each partner's distributive share with Code O in box 9 of Schedule K-1 . . . . . **12.** \_\_\_\_\_

- Code B5—General partner's low-income housing credit (for property placed in service after 1989) from rental real estate activities.
- Code B6—General partner's rehabilitation credit from rental real estate activities.
- Code B7—General partner's alternative minimum tax adjustment from rental real estate activities.
- Code C1—General partner's taxable income (loss) from other rental activities.
- Code C2—General partner's net capital gain (loss) from other rental activities.
- Code C3—General partner's 28% rate gain (loss) from other rental activities.
- Code C4—General partner's general credits from other rental activities.
- Code C5—General partner's alternative minimum tax adjustment from other rental activities.
- Code D—28% rate gain (loss) from passive activities.
- Code E—28% rate gain (loss) from other activities.
- Code F—Guaranteed payments.
- Code G—Income from discharge of indebtedness.
- Code H—Tax-exempt interest income.
- Code I—Rehabilitation credit from rental real estate activities.
- Code J—Nonconventional source fuel credit.
- Code K1—Net earnings (loss) from self-employment.
- Code K2—Gross nonfarm income.
- Code L1—Name of foreign country or U.S. possession.
- Code L2—Gross income from all sources.
- Code L3—Gross income sourced at partner level.
- Code L4(a)—Passive foreign source income.
- Code L4(b)—Listed foreign categories of income.
- Code L4(c)—General limitation foreign source income.
- Code L5—Interest expense allocated and apportioned at the partner level.
- Code L6—Other expenses allocated and apportioned at the partner level.
- Code L7(a)—Deductions allocated and apportioned at partnership level to passive foreign source income.
- Code L7(b)—Deductions allocated and apportioned at partnership level to listed foreign categories of income.
- Code L7(c)—Deductions allocated and apportioned at partnership level to general limitation foreign source income.
- Code L8(a)—Total foreign taxes paid.
- Code L8(b)—Total foreign taxes accrued.
- Code L9—Reduction in taxes available for credit.
- Code M—Oil and gas activities.
- Code N1—Other tax-exempt income.
- Code N2—Nondeductible expenses.

- Code N3—Unrelated business taxable income.
- Code N4—Health insurance.
- Code N5—Distributions of money (cash and marketable securities).
- Code N6—Distributions of property other than money.
- Code N7—Gain eligible for section 1202 exclusion.
- Code N8—Gain eligible for section 1045 rollover—stock replaced.
- Code N9—Gain eligible for section 1045 rollover—stock not replaced.
- Code O—Unrecaptured section 1250 gain.
- Code P1—Foreign trading gross receipts.
- Code P2—Extraterritorial income exclusion.
- Code Q—Qualified 5-year gain.

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## Analysis of Net Income (Loss)

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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 limited liability company 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.

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."

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## Schedule L—Balance Sheet per Books

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The balance sheets should agree with the partnership's books and records. Attach a statement explaining any differences.

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-B 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 United States 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.*

### 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 18—All Nonrecourse Loans

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

## Schedule M-1— Reconciliation of Income (Loss) per Books With Income (Loss) per Return

### Line 3—Guaranteed Payments

Include on this line guaranteed payments shown on Schedule K, line 7.

### 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 travel and entertainment expenses not allowed as a deduction.

## 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 partnership may, but is not required to, use the rules in Regulations section 1.704-1(b)(2)(iv) to determine the

partners' capital accounts in Schedule M-2. 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 2 the amount of money and 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 from Schedule M-1, line 1.

**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.

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. Book 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
Form 1065-B	50 hr., 22 min.	21 hr., 1 min.	22 hr., 6 min.	2 hr., 40 min.
Schedule D (Form 1065-B)	13 hr., 9 min.	2 hr., 40 min.	3 hr., 1 min.	
Schedule K-1 (Form 1065-B)	10 hr., 10 min.	7 hr., 49 min.	11 hr., 56 min.	
Schedule L (Form 1065-B)	15 hr., 46 min.	12 min.	27 min.	
Schedule M-1 (Form 1065-B)	3 hr., 21 min.	12 min.	15 min.	
Schedule M-2 (Form 1065-B)	2 hr., 52 min.	6 min.	9 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 Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **Do not** send the tax form to this address. Instead, see **Where To File** on page 3.

## Line 6—Distributions

**Line 6a—Cash.** Enter on line 6a the amount of money distributed to each partner by the partnership.

**Line 6b—Property.** Enter on line 6b 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.





<b>Code</b>	<b>Code</b>	<b>Code</b>	<b>Code</b>
421700 Hardware, & Plumbing & Heating Equipment & Supplies Wholesalers	445210 Meat Markets	<b>Truck Transportation</b>	<b>Nondepository Credit Intermediation</b>
421800 Machinery, Equipment, & Supplies Wholesalers	445220 Fish & Seafood Markets	484110 General Freight Trucking, Local	522210 Credit Card Issuing
421910 Sporting & Recreational Goods & Supplies Wholesalers	445230 Fruit & Vegetable Markets	484120 General Freight Trucking, Long-distance	522220 Sales Financing
421920 Toy & Hobby Goods & Supplies Wholesalers	445291 Baked Goods Stores	484200 Specialized Freight Trucking	522291 Consumer Lending
421930 Recyclable Material Wholesalers	445299 All Other Specialty Food Stores	<b>Transit and Ground Passenger Transportation</b>	522292 Real Estate Credit (including mortgage bankers & originators)
421940 Jewelry, Watch, Precious Stone, & Precious Metal Wholesalers	445310 Beer, Wine, & Liquor Stores	485110 Urban Transit Systems	522293 International Trade Financing
421990 Other Miscellaneous Durable Goods Wholesalers	<b>Health and Personal Care Stores</b>	485210 Interurban & Rural Bus Transportation	522294 Secondary Market Financing
<b>Wholesale Trade, Nondurable Goods</b>	446110 Pharmacies & Drug Stores	485310 Taxi Service	522298 All Other Nondepository Credit Intermediation
422100 Paper & Paper Product Wholesalers	446120 Cosmetics, Beauty Supplies, & Perfume Stores	485320 Limousine Service	<b>Activities Related to Credit Intermediation</b>
422210 Drugs & Druggists' Sundries Wholesalers	446130 Optical Goods Stores	485410 School & Employee Bus Transportation	522300 Activities Related to Credit Intermediation (including loan brokers)
422300 Apparel, Piece Goods, & Notions Wholesalers	446190 Other Health & Personal Care Stores	485510 Charter Bus Industry	<b>Securities, Commodity Contracts, and Other Financial Investments and Related Activities</b>
422400 Grocery & Related Product Wholesalers	<b>Gasoline Stations</b>	485990 Other Transit & Ground Passenger Transportation	523110 Investment Banking & Securities Dealing
422500 Farm Product Raw Material Wholesalers	447100 Gasoline Stations (including convenience stores with gas)	<b>Pipeline Transportation</b>	523120 Securities Brokerage
422600 Chemical & Allied Products Wholesalers	<b>Clothing and Clothing Accessories Stores</b>	486000 Pipeline Transportation	523130 Commodity Contracts Dealing
422700 Petroleum & Petroleum Products Wholesalers	448110 Men's Clothing Stores	<b>Scenic &amp; Sightseeing Transportation</b>	523140 Commodity Contracts Brokerage
422800 Beer, Wine, & Distilled Alcoholic Beverage Wholesalers	448120 Women's Clothing Stores	487000 Scenic & Sightseeing Transportation	523210 Securities & Commodity Exchanges
422910 Farm Supplies Wholesalers	448130 Children's & Infants' Clothing Stores	<b>Support Activities for Transportation</b>	523900 Other Financial Investment Activities (including portfolio management & investment advice)
422920 Book, Periodical, & Newspaper Wholesalers	448140 Family Clothing Stores	488100 Support Activities for Air Transportation	<b>Insurance Carriers and Related Activities</b>
422930 Flower, Nursery Stock, & Florists' Supplies Wholesalers	448150 Clothing Accessories Stores	488210 Support Activities for Rail Transportation	524140 Direct Life, Health, & Medical Insurance & Reinsurance Carriers
422940 Tobacco & Tobacco Product Wholesalers	448190 Other Clothing Stores	488300 Support Activities for Water Transportation	524150 Direct Insurance & Reinsurance (except Life, Health & Medical) Carriers
422950 Paint, Varnish, & Supplies Wholesalers	448210 Shoe Stores	488410 Motor Vehicle Towing	524210 Insurance Agencies & Brokerages
422990 Other Miscellaneous Nondurable Goods Wholesalers	448310 Jewelry Stores	488490 Other Support Activities for Road Transportation	524290 Other Insurance Related Activities
<b>Retail Trade</b>	448320 Luggage & Leather Goods Stores	488510 Freight Transportation Arrangement	<b>Funds, Trusts, and Other Financial Vehicles</b>
<b>Motor Vehicle and Parts Dealers</b>	<b>Sporting Goods, Hobby, Book, and Music Stores</b>	488990 Other Support Activities for Transportation	525100 Insurance & Employee Benefit Funds
441110 New Car Dealers	451110 Sporting Goods Stores	<b>Couriers and Messengers</b>	525910 Open-End Investment Funds (Form 1120-RIC)
441120 Used Car Dealers	451120 Hobby, Toy, & Game Stores	492110 Couriers	525920 Trusts, Estates, & Agency Accounts
441210 Recreational Vehicle Dealers	451130 Sewing, Needlework, & Piece Goods Stores	492210 Local Messengers & Local Delivery	525930 Real Estate Investment Trusts (Form 1120-REIT)
441221 Motorcycle Dealers	451140 Musical Instrument & Supplies Stores	<b>Warehousing and Storage</b>	525990 Other Financial Vehicles
441222 Boat Dealers	451211 Book Stores	493100 Warehousing & Storage (except lessors of miniwarehouses & self-storage units)	"Offices of Bank Holding Companies" and "Offices of Other Holding Companies" are located under <b>Management of Companies (Holding Companies)</b> on page 35.
441229 All Other Motor Vehicle Dealers	451212 News Dealers & Newsstands	<b>Information</b>	<b>Real Estate and Rental and Leasing</b>
441300 Automotive Parts, Accessories, & Tire Stores	451220 Prerecorded Tape, Compact Disc, & Record Stores	<b>Publishing Industries</b>	<b>Real Estate</b>
<b>Furniture and Home Furnishings Stores</b>	<b>General Merchandise Stores</b>	511110 Newspaper Publishers	531110 Lessors of Residential Buildings & Dwellings
442110 Furniture Stores	452110 Department stores	511120 Periodical Publishers	531114 Cooperative Housing
442210 Floor Covering Stores	452900 Other General Merchandise Stores	511130 Book Publishers	531120 Lessors of Nonresidential Buildings (except Miniwarehouses)
442291 Window Treatment Stores	<b>Miscellaneous Store Retailers</b>	511140 Database & Directory Publishers	531130 Lessors of Miniwarehouses & Self-Storage Units
442299 All Other Home Furnishings Stores	453110 Florists	511190 Other Publishers	531190 Lessors of Other Real Estate Property
<b>Electronics and Appliance Stores</b>	453210 Office Supplies & Stationery Stores	511210 Software Publishers	531210 Offices of Real Estate Agents & Brokers
443111 Household Appliance Stores	453220 Gift, Novelty, & Souvenir Stores	<b>Motion Picture and Sound Recording Industries</b>	531310 Real Estate Property Managers
443112 Radio, Television, & Other Electronics Stores	453310 Used Merchandise Stores	512100 Motion Picture & Video Industries (except video rental)	531320 Offices of Real Estate Appraisers
443120 Computer & Software Stores	453390 Pet & Pet Supplies Stores	512200 Sound Recording Industries	531390 Other Activities Related to Real Estate
443130 Camera & Photographic Supplies Stores	453920 Art Dealers	<b>Broadcasting and Telecommunications</b>	<b>Rental and Leasing Services</b>
<b>Building Material and Garden Equipment and Supplies Dealers</b>	453930 Manufactured (Mobile) Home Dealers	513100 Radio & Television Broadcasting	532100 Automotive Equipment Rental & Leasing
444110 Home Centers	453990 All Other Miscellaneous Store Retailers (including tobacco, candle, & trophy shops)	513200 Cable Networks & Program Distribution	532210 Consumer Electronics & Appliances Rental
444120 Paint & Wallpaper Stores	<b>Nonstore Retailers</b>	513300 Telecommunications (including paging, cellular, satellite, & other telecommunications)	532220 Formal Wear & Costume Rental
444130 Hardware Stores	454110 Electronic Shopping & Mail-Order Houses	<b>Information Services and Data Processing Services</b>	532230 Video Tape & Disc Rental
444190 Other Building Material Dealers	454210 Vending Machine Operators	514100 Information Services (including news syndicates, libraries, & on-line information services)	
444200 Lawn & Garden Equipment & Supplies Stores	454311 Heating Oil Dealers	514210 Data Processing Services	
<b>Food and Beverage Stores</b>	454312 Liquefied Petroleum Gas (Bottled Gas) Dealers	<b>Finance and Insurance</b>	
445110 Supermarkets and Other Grocery (except Convenience) Stores	454319 Other Fuel Dealers	<b>Depository Credit Intermediation</b>	
445120 Convenience Stores	454390 Other Direct Selling Establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)	522110 Commercial Banking	
	<b>Transportation and Warehousing</b>	522120 Savings Institutions	
	<b>Air, Rail, and Water Transportation</b>	522130 Credit Unions	
	481000 Air Transportation	522190 Other Depository Credit Intermediation	
	482110 Rail Transportation		
	483000 Water Transportation		

<p><b>Code</b></p> <p>532290 Other Consumer Goods Rental</p> <p>532310 General Rental Centers</p> <p>532400 Commercial &amp; Industrial Machinery &amp; Equipment Rental &amp; Leasing</p> <p><b>Lessors of Nonfinancial Intangible Assets (except copyrighted works)</b></p> <p>533110 Lessors of Nonfinancial Intangible Assets (except copyrighted works)</p>	<p><b>Code</b></p> <p><b>Management of Companies (Holding Companies)</b></p> <p>551111 Offices of Bank Holding Companies</p> <p>551112 Offices of Other Holding Companies</p>	<p><b>Code</b></p> <p>621340 Offices of Physical, Occupational &amp; Speech Therapists, &amp; Audiologists</p> <p>621391 Offices of Podiatrists</p> <p>621399 Offices of All Other Miscellaneous Health Practitioners</p>	<p><b>Code</b></p> <p><b>Accommodation and Food Services</b></p> <p><b>Accommodation</b></p> <p>721110 Hotels (except casino hotels) &amp; Motels</p> <p>721120 Casino Hotels</p> <p>721191 Bed &amp; Breakfast Inns</p> <p>721199 All Other Traveler Accommodation</p> <p>721210 RV (Recreational Vehicle) Parks &amp; Recreational Camps</p> <p>721310 Rooming &amp; Boarding Houses</p>
<p><b>Professional, Scientific, and Technical Services</b></p> <p><b>Legal Services</b></p> <p>541110 Offices of Lawyers</p> <p>541190 Other Legal Services</p> <p><b>Accounting, Tax Preparation, Bookkeeping, and Payroll Services</b></p> <p>541211 Offices of Certified Public Accountants</p> <p>541213 Tax Preparation Services</p> <p>541214 Payroll Services</p> <p>541219 Other Accounting Services</p> <p><b>Architectural, Engineering, and Related Services</b></p> <p>541310 Architectural Services</p> <p>541320 Landscape Architecture Services</p> <p>541330 Engineering Services</p> <p>541340 Drafting Services</p> <p>541350 Building Inspection Services</p> <p>541360 Geophysical Surveying &amp; Mapping Services</p> <p>541370 Surveying &amp; Mapping (except Geophysical) Services</p> <p>541380 Testing Laboratories</p> <p><b>Specialized Design Services</b></p> <p>541400 Specialized Design Services (including interior, industrial, graphic, &amp; fashion design)</p> <p><b>Computer Systems Design and Related Services</b></p> <p>541511 Custom Computer Programming Services</p> <p>541512 Computer Systems Design Services</p> <p>541513 Computer Facilities Management Services</p> <p>541519 Other Computer Related Services</p>	<p><b>Administrative and Support and Waste Management and Remediation Services</b></p> <p><b>Administrative and Support Services</b></p> <p>561110 Office Administrative Services</p> <p>561210 Facilities Support Services</p> <p>561300 Employment Services</p> <p>561410 Document Preparation Services</p> <p>561420 Telephone Call Centers</p> <p>561430 Business Service Centers (including private mail centers &amp; copy shops)</p> <p>561440 Collection Agencies</p> <p>561450 Credit Bureaus</p> <p>561490 Other Business Support Services (including repossession services, court reporting, &amp; stenotype services)</p> <p>561500 Travel Arrangement &amp; Reservation Services</p> <p>561600 Investigation &amp; Security Services</p> <p>561710 Exterminating &amp; Pest Control Services</p> <p>561720 Janitorial Services</p> <p>561730 Landscaping Services</p> <p>561740 Carpet &amp; Upholstery Cleaning Services</p> <p>561790 Other Services to Buildings &amp; Dwellings</p> <p>561900 Other Support Services (including packaging &amp; labeling services, &amp; convention &amp; trade show organizers)</p> <p><b>Waste Management and Remediation Services</b></p> <p>562000 Waste Management &amp; Remediation Services</p>	<p><b>Outpatient Care Centers</b></p> <p>621410 Family Planning Centers</p> <p>621420 Outpatient Mental Health &amp; Substance Abuse Centers</p> <p>621491 HMO Medical Centers</p> <p>621492 Kidney Dialysis Centers</p> <p>621493 Freestanding Ambulatory Surgical &amp; Emergency Centers</p> <p>621498 All Other Outpatient Care Centers</p> <p><b>Medical and Diagnostic Laboratories</b></p> <p>621510 Medical &amp; Diagnostic Laboratories</p> <p><b>Home Health Care Services</b></p> <p>621610 Home Health Care Services</p> <p><b>Other Ambulatory Health Care Services</b></p> <p>621900 Other Ambulatory Health Care Services (including ambulance services &amp; blood &amp; organ banks)</p> <p><b>Hospitals</b></p> <p>622000 Hospitals</p> <p><b>Nursing and Residential Care Facilities</b></p> <p>623000 Nursing &amp; Residential Care Facilities</p> <p><b>Social Assistance</b></p> <p>624100 Individual &amp; Family Services</p> <p>624200 Community Food &amp; Housing, &amp; Emergency &amp; Other Relief Services</p> <p>624310 Vocational Rehabilitation Services</p> <p>624410 Child Day Care Services</p>	<p><b>Food Services and Drinking Places</b></p> <p>722110 Full-Service Restaurants</p> <p>722210 Limited-Service Eating Places</p> <p>722300 Special Food Services (including food service contractors &amp; caterers)</p> <p>722410 Drinking Places (Alcoholic Beverages)</p> <p><b>Other Services</b></p> <p><b>Repair and Maintenance</b></p> <p>811110 Automotive Mechanical &amp; Electrical Repair &amp; Maintenance</p> <p>811120 Automotive Body, Paint, Interior, &amp; Glass Repair</p> <p>811190 Other Automotive Repair &amp; Maintenance (including oil change &amp; lubrication shops &amp; car washes)</p> <p>811210 Electronic &amp; Precision Equipment Repair &amp; Maintenance</p> <p>811310 Commercial &amp; Industrial Machinery &amp; Equipment (except Automotive &amp; Electronic) Repair &amp; Maintenance</p> <p>811410 Home &amp; Garden Equipment &amp; Appliance Repair &amp; Maintenance</p> <p>811420 Reupholstery &amp; Furniture Repair</p> <p>811430 Footwear &amp; Leather Goods Repair</p> <p>811490 Other Personal &amp; Household Goods Repair &amp; Maintenance</p>
<p><b>Other Professional, Scientific, and Technical Services</b></p> <p>541600 Management, Scientific, &amp; Technical Consulting Services</p> <p>541700 Scientific Research &amp; Development Services</p> <p>541800 Advertising &amp; Related Services</p> <p>541910 Marketing Research &amp; Public Opinion Polling</p> <p>541920 Photographic Services</p> <p>541930 Translation &amp; Interpretation Services</p> <p>541940 Veterinary Services</p> <p>541990 All Other Professional, Scientific, &amp; Technical Services</p>	<p><b>Educational Services</b></p> <p>611000 Educational Services (including schools, colleges, &amp; universities)</p> <p><b>Health Care and Social Assistance</b></p> <p><b>Offices of Physicians and Dentists</b></p> <p>621111 Offices of Physicians (except mental health specialists)</p> <p>621112 Offices of Physicians, Mental Health Specialists</p> <p>621210 Offices of Dentists</p> <p><b>Offices of Other Health Practitioners</b></p> <p>621310 Offices of Chiropractors</p> <p>621320 Offices of Optometrists</p> <p>621330 Offices of Mental Health Practitioners (except Physicians)</p>	<p><b>Arts, Entertainment, and Recreation</b></p> <p><b>Performing Arts, Spectator Sports, and Related Industries</b></p> <p>711100 Performing Arts Companies</p> <p>711210 Spectator Sports (including sports clubs &amp; racetracks)</p> <p>711300 Promoters of Performing Arts, Sports, &amp; Similar Events</p> <p>711410 Agents &amp; Managers for Artists, Athletes, Entertainers, &amp; Other Public Figures</p> <p>711510 Independent Artists, Writers, &amp; Performers</p> <p><b>Museums, Historical Sites, and Similar Institutions</b></p> <p>712100 Museums, Historical Sites, &amp; Similar Institutions</p> <p><b>Amusement, Gambling, and Recreation Industries</b></p> <p>713100 Amusement Parks &amp; Arcades</p> <p>713200 Gambling Industries</p> <p>713900 Other Amusement &amp; Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, &amp; bowling centers)</p>	<p>811420 Reupholstery &amp; Furniture Repair</p> <p>811430 Footwear &amp; Leather Goods Repair</p> <p>811490 Other Personal &amp; Household Goods Repair &amp; Maintenance</p> <p><b>Personal and Laundry Services</b></p> <p>812111 Barber Shops</p> <p>812112 Beauty Salons</p> <p>812113 Nail Salons</p> <p>812190 Other Personal Care Services (including diet &amp; weight reducing centers)</p> <p>812210 Funeral Homes &amp; Funeral Services</p> <p>812220 Cemeteries &amp; Crematories</p> <p>812310 Coin-Operated Laundries &amp; Drycleaners</p> <p>812320 Drycleaning &amp; Laundry Services (except Coin-Operated)</p> <p>812330 Linen &amp; Uniform Supply</p> <p>812910 Pet Care (except Veterinary) Services</p> <p>812920 Photofinishing</p> <p>812930 Parking Lots &amp; Garages</p> <p>812990 All Other Personal Services</p> <p><b>Religious, Grantmaking, Civic, Professional, and Similar Organizations</b></p> <p>813000 Religious, Grantmaking, Civic, Professional, &amp; Similar Organizations (including condominium and homeowners associations)</p>

