2018
Partner's Instructions for Schedule K-1 (Form 1065)
Partner's Share of Income, Deductions, Credits, etc.
(For Partner's Use Only)

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

Future Developments

For the latest information about developments related to Schedule K-1 (Form 1065) and the Partner's Instructions for Schedule K-1 (Form 1065), such as legislation enacted after they were published, go to IRS.gov/Form1065.

What's New

- Qualified business income deduction. For tax years beginning after 2017, individuals, estates, and trusts may be entitled to a deduction of up to 20% of their qualified business income from a trade or business. For more information, see section 199A and Pub. 535, Business Expenses. Also, see Codes 2 through AD, Deduction for qualified business income, under Box 20. Other information.

- In Part II, item K, the entry spaces were expanded to reflect beginning and ending partner's share of liabilities.

- New box 6c, Dividend equivalents, has been added to report section 871(m) income.

- For box 11, Other income (loss), code F indicates section 951A GILTI income. The following codes have been added or changed as a result of the Tax Cuts and Jobs Act.

- Box 15, code P is used to report the new section 45S credit reported on Form 8994, Employer Credit for Paid Family and Medical Leave.

- Box 16, Foreign transactions, the following new codes have been added. For foreign gross income sourced at the partnership level: code D, section 951A category; code E, foreign branch category. Deductions allocated and apportioned at the partner's level to foreign source income: code K, section 951A category; code L, foreign branch category.

Other information: code U, section 951A(c)(1)(A) tested income; code V, tested foreign income tax; code W, section 965 information.

- Box 20, new codes have been added for the qualified business income deduction: code Z, section 199A income; code AA, section 199A W-2 wages; code AB, section 199A unadjusted basis; code AC, section 199A qualified REIT dividends; code AD, section 199A qualified PTP income.

- Box 20, new code AE, excess taxable income, and code AF, excess business interest income, have been added for reporting limitations on the deduction of business interest under section 163(j).

- Box 20, new code AG has been added to report each partner's share of the gross receipts under section 59A(e).

General Instructions

Purpose of Schedule K-1

The partnership uses Schedule K-1 to report your share of the partnership's income, deductions, credits, etc. Keep it for your records. Do not file it with your tax return unless you are specifically required to do so. (See the instructions for Code O, Backup withholding, later.) The partnership files a copy of Schedule K-1 (Form 1065) with the IRS.

For your protection, Schedule K-1 may show only the last four digits of your identifying number (social security number (SSN), etc.). However, the partnership has reported your complete identifying number to the IRS.

Although the partnership generally isn't subject to income tax, you may be liable for tax on your share of the partnership income, whether or not distributed. Include your share on your tax return if a return is required. Use these instructions to help you report the items shown on Schedule K-1 on your tax return.

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

Inconsistent Treatment of Items

Generally, you must report partnership items shown on your Schedule K-1 (and any attached statements) the same way that the partnership treated the items on its return.

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

If you are required to file Form 8082 but do not do so, you may be subject to the accuracy-related penalty. This penalty is in addition to any tax that results from making your amount or treatment of the item consistent with that shown on the partnership's return. Any deficiency that results from making the amounts consistent may be assessed immediately.

Errors

If you believe the partnership has made an error on your Schedule K-1, notify the partnership and ask for a corrected Schedule K-1. Do not change any items on your copy of Schedule K-1. Be sure that the partnership sends a copy of the corrected Schedule K-1 to the IRS.

Sale or Exchange of Partnership Interest

Generally, a partner who sells or exchanges a partnership interest in a section 751(a) exchange must notify the partnership, in writing, within 30 days of the exchange (or, if earlier, by January 15 of the calendar year following the calendar year in which the exchange occurred). A "section 751(a) exchange" is any sale or exchange of a partnership interest in which any money or
other property received by the partner in
exchange for that partner’s interest is
attributable to unrealized receivables (as
defined in section 751(c)) or inventory items
(as defined in section 751(d)).

The written notice to the partnership must
include the names and addresses of both
parties to the exchange, the identifying
numbers of the transferor and (if known) of
the transferee, and the exchange date.

An exception to this rule is made for sales
or exchanges of publicly traded partnership
interests for which a broker is required to file
Form 1099-B, Proceeds From Broker and
Barter Exchange Transactions.

If a partner is required to notify the
partnership of a section 751(a) exchange but
fails to do so, the partner will be subject to a
penalty for each such failure. However, no
penalty will be imposed if the partner can
show that the failure was due to reasonable
cause and not willful neglect.

**TIP**

Gain or loss from the disposition of
your partnership interest may be net
investment income under section
1411 and could be subject to the net
investment income tax. See Form 8960, Net
Investment Income Tax - Individuals,
Estates, and Trusts, and its instructions for
information about how to report and figure
the tax due.

**CAUTION**

Three-year holding period
requirement for applicable partnership interests. New section
1061 increases the required long-term
capital gains holding period for an applicable partnership interest from more than 1 year to
more than 3 years. The new holding period
applies only to applicable partnership interests held in connection with the
performance of services as defined in
section 1061. See section 1061 and Pub.
541 for details.

**Nominee Reporting**

Any person who holds, directly or indirectly,
an interest in a partnership as a nominee for
another person must furnish a written
statement to the partnership by the last day
of the month following the end of the
partnership’s tax year. This statement must
include the name, address, and identifying
number of the nominee and such other
person, description of the partnership
interest held as nominee for that person, and
other information required by Temporary
Regulations section 1.6031(c)-1T. A
nominee that fails to furnish this statement
must furnish to the person for whom the
nominee holds the partnership interest a
copy of Schedule K-1 and related
information within 30 days of receiving it from
the partnership.

A nominee who fails to furnish all the
information required by Temporary
Regulations section 1.6031(c)-1T when due,
or who furnishes incorrect information, is
subject to a $270 penalty for each failure.
The maximum penalty is $3,275,500 for all
such failures during a calendar year. If the
nominee intentionally disregards the
requirement to report correct information,
each $270 penalty increases to $540 or, if
greater, 10% of the aggregate amount of
items required to be reported, and there is no
limit to the amount of the penalty.

**International Boycotts**

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

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

**Definitions**

**General Partner**

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

**Limited Partner**

A limited partner is a partner in a partnership
formed under a state limited partnership law,
whose personal liability for partnership debts
is limited to the amount of money or other
property that the partner contributed or is
required to contribute to the partnership.

Some members of other entities, such as
domestic or foreign business trusts or limited
liability companies that are classified as
partnerships, may be treated as limited
partners for certain purposes.

**Nonrecourse Loans**

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

**Elections**

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

- Section 59(e) (deduction of certain
  qualified expenditures ratable over the period
  of time specified in that section). For details,
  see the instructions for code J in box 13.
- Section 108(b)(5) (election related to
  reduction of tax attributes due to exclusion
  from gross income of discharge of indebtedness).
- Section 263A(d) (preproductive
  expenses). See the instructions for code P
  in box 13.
- Section 617 (deduction and recapture
  of certain mining exploration expenditures).
- Section 901 (foreign tax credit).

**Additional Information**

For more information on the treatment of
partnership income, deductions, credits, and
other items, see Pub. 535, Business
Expenses.

To get forms and publications, see the
instructions for your tax return or visit the IRS
website at IRS.gov.

**Limitations on Losses, Deductions, and Credits**

There are potential limitations on partnership
losses that you can deduct on your return.
These limitations and the order in which you
must apply them are as follows: the basis
limitations, the at-risk limitations, the passive
activity limitations, and the excess business
loss limitations. These limitations are
discussed below.

Other limitations may apply to specific
deductions (for example, the section 179
expense deduction). Generally, specific
limitations apply before the at-risk and
passive loss limitations.

**Basis Limitations**

Generally, you may not claim your share of
a partnership loss (including a capital loss)
to the extent that it is greater than the adjusted
basis of your partnership interest at the end
of the partnership’s tax year. Any losses and
deductions not allowed this year because of
the basis limit can be carried forward
indefinitely and deducted in a later year
subject to the basis limit for that year.

The partnership isn’t responsible for
keeping the information needed to figure the
basis of your partnership interest. Although
the partnership does provide an analysis of
the changes to your capital account in item L
of Schedule K-1, that information is based on
the partnership’s books and records and
cannot be used to figure your basis.

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

Use the Worksheet for Adjusting the
Basis of a Partner’s Interest in the
Partnership to figure the basis of your
interest in the partnership.

For more details on the basis limitations,
special rules for charitable contributions
and foreign taxes paid and accrued, see
Pub. 541, Partnerships.

**At-Risk Limitations**

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

The at-risk rules generally limit the
amount of loss and other deductions that you
can claim to the amount you could actually
lose in the activity. These losses and deductions include a loss on the disposition of assets and the section 179 expense deduction. However, if you acquired your partnership interest before 1987, the at-risk rules do not apply to losses from an activity of holding real property placed in service before 1987. The activity of holding mineral property doesn’t qualify for this exception. The partnership should identify on a statement attached to Schedule K-1 any losses that are not subject to the at-risk limitations.

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

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

You should get a separate statement of income, expenses, and other items for each activity from the partnership.

### Passive Activity Limitations

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

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

Generally, passive activities include the following.

1. Trade or business activities in which you didn’t materially participate.
2. Activities that meet the definition of rental activities under Temporary Regulations section 1.469-1T(e)(3) and Regulations section 1.469-1(e)(3).

Passive activities do not include the following.

1. Trade or business activities in which you materially participated.
2. Rental real estate activities in which you materially participated if you were a real estate professional for the tax year. You were a real estate professional only if you met both of the following conditions.
   a. More than half of the personal services you performed in trades or businesses were performed in real property trades or businesses in which you materially participated.
   b. You performed more than 750 hours of services in real property trades or businesses in which you materially participated.

### TIP

For a closely held C corporation (defined in section 465(a)(1)(B)), the above conditions are treated as met if more than 50% of the corporation’s gross receipts were from real property trades or businesses in which the corporation materially participated.

For purposes of this rule, each interest in real estate is a separate activity, unless you elect to treat all interests in rental real estate as one activity. For details on making this election, see the Instructions for Schedule E (Form 1040), Supplemental Income and Loss.

If you are married filing jointly, either you or your spouse must separately meet both (a) and (b) of the above conditions, without taking into account services performed by the other spouse.

A real property trade or business is any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business. Services you performed as an employee are not treated as performed in a real property trade or business unless you owned more than 5% of the stock (or more than 5% of the capital or profits interest) in the employer.

3. Working interests in oil or gas wells if you were a general partner.
4. The rental of a dwelling unit any partner used for personal purposes during the tax year for more than the greater of 14 days or 10% of the number of days that the residence was rented at fair rental value.
5. Activities of trading personal property for the account of owners of interests in the activities.

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

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

**Material participation.** You must determine if you materially participated (a) in each trade or business activity held through the partnership, and (b) if you were a real estate professional (defined earlier) in each rental real estate activity held through the partnership. All determinations of material participation are based on your participation during the partnership’s tax year.

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

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

**Individuals (other than limited partners).** If you are an individual (either a general partner or a limited partner who owned a general partnership interest at all times during the tax year), you materially participated in an activity only if one or more of the following apply.

1. You participated in the activity for more than 500 hours during the tax year.
2. Your participation in the activity for the tax year constituted substantially all the participation in the activity of all individuals (including individuals who are not owners of interests in the activity).
3. You participated in the activity for more than 100 hours during the tax year, and your participation in the activity for the tax year wasn’t less than the participation in the activity of any other individual (including individuals who were not owners of interests in the activity) for the tax year.
4. The activity was a significant participation activity for the tax year, and you participated in all significant participation activities (including activities outside the partnership) during the year for more than 500 hours. A significant participation activity is any trade or business activity in which you participated for more than 100 hours during the year and in which you didn’t materially participate under any of the material participation tests (other than this test).
5. You materially participated in the activity for any 5 tax years (whether or not consecutive) during the 10 tax years that immediately precede the tax year.
6. The activity was a personal service activity and you materially participated in the activity for any 3 tax years (whether or not consecutive) preceding the tax year. A personal service activity involves the performance of personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other trade or business in which capital isn’t a material income-producing factor.
7. Based on all the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis during the tax year.

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

**Work counted toward material participation.** Generally, any work that you or your spouse does in connection with an activity held through a partnership (where you own your partnership interest at the time the work is done) is counted toward material participation. However, work in connection with the activity isn’t counted toward material participation if either of the following applies.

1. The work isn’t the type of work that owners of the activity would usually do and one of the principal purposes of the work that you or your spouse does is to avoid the passive loss or credit limitations.
2. You do the work in your capacity as an investor and you are not directly involved in the day-to-day operations of the activity.

Examples of work done as an investor that would not count toward material participation include:

a. Studying and reviewing financial statements or reports on operations of the activity,

b. Preparing or compiling summaries or analyses of the finances or operations of the activity for your own use, and

c. Monitoring the finances or operations of the activity in a non-managerial capacity.

**Effect of determination.** Income (loss), deductions, and credits from an activity are nonpassive if you determine that:

- You materially participated in a trade or business activity of the partnership, or
- You were a real estate professional (defined earlier) in a rental real estate activity of the partnership.

If you determine that you didn’t materially participate in a trade or business activity of the partnership or if you have income (loss), deductions, or credits from a rental activity of the partnership (other than a rental real estate activity in which you materially participated as a real estate professional), the amounts from that activity are passive. Report passive income (losses), deductions, and credits as follows.

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

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

If you have an overall gain from a PTP, the net gain is nonpassive income. In addition, the nonpassive income is included in investment income to figure your investment interest expense deduction.

Do not report passive income, gains, or losses from a PTP on Form 8582. Instead, use the following rules to figure and report on the proper form or schedule your income, gains, and losses from passive activities that you held through each PTP you owned during the tax year.

1. Combine any current year income, gains and losses, and any prior year unallowed losses to see if you have an overall gain or loss from the PTP. Include only the same types of income and losses you would include in your net income or loss from a non-PTP passive activity. See Pub. 925, Passive Activity and At-Risk Rules, for more details.
2. If you have an overall gain, the net gain portion (total gain minus total losses) is nonpassive income. On the form or schedule you normally use, report the net gain portion as nonpassive income and the remaining income and the total losses as passive income and loss. To the left of the entry space, enter “From PTP.” It is important to identify the nonpassive income because the nonpassive portion is included in modified adjusted gross income for purposes of figuring on Form 8582 the “special allowance” for active participation in a non-PTP rental real estate activity. In addition, the nonpassive income is included in investment income when figuring your investment interest expense deduction on Form 4952, Investment Interest Expense Deduction.

**Example.** If you have Schedule E (Form 1040) income of $8,000, and a Form 4797, Sales of Business Property, prior year unallowed loss of $3,500 from the passive activities of a particular PTP, you have a $4,500 overall gain ($8,000 - $3,500). On
Schedule E (Form 1040), line 28, report the $4,500 net gain as nonpassive income in column (k). In column (h), report the remaining Schedule E (Form 1040) gain of $3,500 ($8,000 - $4,500). On the appropriate line of Form 4797, report the prior year unallowed loss of $3,500. Be sure to enter “From PTP” to the left of each entry space.

3. If you have an overall loss (but didn’t dispose of your entire interest in the PTP to an unrelated person in a fully taxable transaction during the year), the losses are allowed to the extent of the income, and the excess loss is carried forward to use in a future year when you have income to offset it. Report as a passive loss on the schedule or form you normally use the portion of the loss equal to the income. Report the income as passive income on the form or schedule you normally use.

Example. You have a Schedule E (Form 1040) loss of $12,000 (current year losses plus prior year unallowed losses) and a Form 4797 gain of $7,200. Report the $7,200 gain on the appropriate line of Form 4797. On Schedule E (Form 1040), line 28, report $7,200 of the losses as a passive loss in column (g). Carry forward to 2019 the unallowed loss of $4,800 ($12,000 - $7,200).

If you have unallowed losses from more than one activity of the PTP or from the same activity of the PTP that must be reported on different forms, you must allocate the unallowed losses on a pro rata basis to figure the amount allowed from each activity or on each form.

TIP
To allocate and keep a record of the unallowed losses, use Worksheets 5, 6, and 7 of Form 8582. List each activity of the PTP in Worksheet 5. Enter the overall loss from each activity in column (a). Complete column (b) of Worksheet 5 according to its instructions. Multiply the total unallowed loss from the PTP by each ratio in column (b) and enter the result in column (c) of Worksheet 5. Then, complete Worksheet 6 if all the loss from the same activity is to be reported on one form or schedule. Use Worksheet 7 instead of Worksheet 6 if you have more than one loss to be reported on different forms or schedules for the same activity. Enter the net loss plus any prior year unallowed losses in column (a) of Worksheet 6 (or Worksheet 7, if applicable). The losses in column (c) of Worksheet 6 (column (e) of Worksheet 7) are the allowed losses to report on the forms or schedules. Report both these losses and any income from the PTP on the forms and schedules you normally use.

4. If you have an overall loss and you disposed of your entire interest in the PTP to an unrelated person in a fully taxable transaction during the year, your losses (including prior year unallowed losses) allocable to the activity for the year are not limited by the passive loss rules. A fully taxable transaction is one in which you recognize all your realized gain or loss. Report the income and losses on the forms and schedules you normally use.

TIP
For rules on the disposition of an entire interest reported using the installment method, see the Instructions for Form 8582.

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

Only individuals, qualifying estates, and qualifying revocable trusts that made a section 645 election can actively participate in a rental real estate activity. Estates (other than qualifying estates), trusts (other than qualifying revocable trusts that made a section 645 election), and corporations cannot actively participate. Limited partnerships cannot actively participate unless future regulations provide an exception.

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

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

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

Modified adjusted gross income limitation. The maximum special allowance that single individuals and married individuals filing a joint return can qualify for is $25,000. The maximum is $12,500 for married individuals who file separate returns and who lived apart at all times during the year. The maximum special allowance for which an estate can qualify is $25,000 reduced by the special allowance for which the surviving spouse qualifies.

If your modified adjusted gross income (defined below) is $100,000 or less ($50,000 or less if married filing separately), your loss is deductible up to the maximum special allowance referred to in the preceding paragraph. If your modified adjusted gross income is more than $100,000 (more than $50,000 if married filing separately), the special allowance is limited to 50% of the difference between $150,000 ($75,000 if married filing separately) and your modified adjusted gross income. When modified adjusted gross income is $150,000 or more ($75,000 or more if married filing separately), there is no special allowance.

Modified adjusted gross income is your adjusted gross income figured without taking into account the following amounts, if applicable.

• Any passive activity loss.
• Any rental real estate loss allowed under section 469(c)(7) to real estate professionals.
• Any overall loss from a PTP.
• Any taxable social security or equivalent railroad retirement benefits.
• Any deductible contributions to an IRA or certain other qualified retirement plans under section 219.
• The domestic production activities deduction.
• The student loan interest deduction.
• The tuition and fees deduction.
• The deductible part of self-employment taxes.
• The exclusion from income of interest from Series EE or U.S. Savings Bonds used to pay higher education expenses.
• The exclusion of amounts received under an employer’s adoption assistance program.

Commercial revitalization deduction. The special $25,000 allowance for the commercial revitalization deduction from rental real estate activities isn’t subject to the active participation rules or modified adjusted gross income limits discussed earlier. See section 469(g)(3)(C) as in effect before March 23, 2018, and the instructions for box 13, code Q, for more information.

Special rules for certain other activities. If you have net income (loss), deductions, or credits from any activity other than the following activities, modified adjusted gross income rules apply, the partnership will identify the activity and all amounts relating to it on Schedule K-1 or on an attached statement.

If you have net income subject to recharacterization under Temporary Regulations section 1.469-2T(f) and Regulations section 1.469-2(f), report such amounts according to the Instructions for Form 8582 (or Form 8810).

If you have net income (loss), deductions, or credits from any of the following activities, treat such amounts as nonpassive and report them as indicated in these instructions.

1. Working interests in oil and gas wells
2. The rental of a dwelling unit any part of which is occupied by you as your residence was rented at fair rental value.
3. The rental of a dwelling unit any part of which was used as your residence was rented at fair rental value.
Self-charged interest. The partnership will report any "self-charged" interest income or expense that resulted from loans between you and the partnership (or between the partnership and another partnership or S corporation if both entities have the same owners with the same proportional ownership interest in each entity). If there was more than one activity, the partnership will provide a statement allocating the interest income or expense with respect to each activity. The self-charged interest rules do not apply to your partnership interest if the partnership made an election under Regulations section 1.469-7(g) to avoid the application of these rules. See the Instructions for Form 8582 for details.

Excess Business Loss Limitations

Losses attributable to your trade or business may be limited pursuant to section 461. See section 461 and Form 461 and its instructions for more information.

Specific Instructions

Part I. Information About the Partnership

Item D
If the box in Item D is checked, you are a partner in a PTP and must follow the rules discussed earlier under Publicly traded partnerships.

Part II. Information About the Partner

Item E
For your protection, this form may show only the last four digits of your social security number (SSN), individual taxpayer identification number (ITIN), or employer identification number (EIN). However, the partnership has reported your complete identification number to the IRS.

Item J
Generally, the amounts reported in item J are based on the partnership agreement. If your interest commenced before the beginning of the partnership’s tax year, the partnership will have entered, in the Beginning column, the percentages that existed for you immediately after admission. If your interest terminated before the end of the partnership’s tax year, the partnership will have entered, in the Ending column, the percentages that existed immediately before termination.

The ending percentage share shown on the Capital line is the portion of the capital you would receive if the partnership was liquidated at the end of its tax year by the distribution of undivided interests in the partnership’s assets and liabilities. If your capital account is negative or zero, the partnership will have entered zero on this line.

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

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

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

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

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

Qualified persons include any persons actively and regularly engaged in the business of lending money, such as a bank or savings and loan association. Qualified persons generally do not include related parties (unless the nonrecourse financing is commercially reasonable and on substantially the same terms as loans involving unrelated persons), the seller of the property, or a person who receives a fee for the partnership’s investment in the real property.

See Pub. 925 for more information on qualified nonrecourse financing.

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

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

Item L
If a partnership reports other than tax basis capital accounts (i.e., GAAP, section 704(b), book, or other) to its partners in Item L, and tax basis capital, if reported on any partner’s Schedule K-1 at the beginning or end of the tax year would be negative, the partnership must report on line 20 of Schedule K-1, using code AH, such partner’s beginning and ending shares of tax basis capital. This is in addition to the required reporting in Item L.

For Item L, "tax basis capital" means (i) the amount of cash plus the tax basis of property contributed to a partnership by a partner minus the amount of cash plus the tax basis of property distributed to a partner by the partnership, net of any liabilities assumed or taken subject to, in connection with such contribution or distribution; plus (ii) the partner’s cumulative share of partnership taxable income and tax-exempt income; minus (iii) the partner’s cumulative share of taxable loss and nondeductible, noncapital expenditures.

Item M
If you have contributed property with a built-in gain or loss during the tax year, the partnership will check the "Yes" box. Also, the partnership will attach a statement showing the property contributed, the date of the contribution, and the amount of any built-in gain or loss. A built-in gain or loss is the difference between the fair market value of the property and your adjusted basis in the property at the time it was contributed to the partnership. If you contributed more than 10 properties on a single date during the tax year, the statement may instead show the number of properties contributed on that date, the total amount of built-in gain, and the total amount of built-in loss.

The partnership is providing this for your information. Contributions of property with a built-in gain or loss could affect a partner’s tax liability (in matters concerning precontribution gain or loss, and distributions subject to section 737), and may also affect how the partnership allocated certain items on your Schedule K-1. For information on precontribution gain or loss, see the instructions for box 20, code W. For information on distributions subject to section 737, see the instructions for box 19, code B.

Part III. Partner’s Share of Current Year Income, Deductions, Credits, and Other Items

The amounts shown in boxes 1 through 20 reflect your share of income, loss, deductions, credits, and other items from partnership business or rental activities without reference to limitations on losses or adjustments that may be required of you because of:

1. The adjusted basis of your partnership interest,
2. The amount for which you are at risk, and
3. The passive activity limitations.

For information on these provisions, see Limitations on Losses, Deductions, and Credits, earlier.

Other limitations may apply to specific deductions (for example, the section 179 expense deduction). Generally, specific limitations apply before the at-risk and passive loss limitations.

If you are an individual and the passive activity rules do not apply to the amounts shown on your Schedule K-1, take the amounts shown and enter them on the lines on your tax return as indicated in the summarized reporting information shown on page 2 of the Schedule K-1. If the passive activity rules do apply, report the amounts shown as indicated in these instructions.

If you are not an individual, report the amounts in each box as instructed on your tax return.

The line numbers in the summarized reporting information on page 2 of Schedule K-1 are references to forms in use for calendar year 2018. If you file your tax return on a calendar year basis, but your partnership files a return for a fiscal year, report the amounts on your tax return for the year in which the partnership’s fiscal year ends. For example, if the partnership’s tax year ends in February 2019, report the amounts on your 2019 tax return.

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

If the partnership reports a section 743(b) adjustment to partnership items, report these adjustments as separate items on Form 1040 in accordance with the reporting instructions for the partnership item being adjusted. A section 743(b) adjustment increases or decreases your share of income, deduction, gain, or loss for a partnership item. For example, if the partnership reports a section 743(b) adjustment to depreciation for property used in its trade or business, report the adjustment on line 28 of Schedule E (Form 1040) in accordance with the instructions for box 1 of Schedule K-1.

TIP If you have amounts other than those shown on Schedule K-1 to report on Schedule E (Form 1040), enter each item separately on line 28 of Schedule E (Form 1040).

Income (Loss)

Box 1. Ordinary Business Income (Loss)

The amount reported in box 1 is your share of the ordinary income (loss) from trade or business activities of the partnership. Generally, where you report this amount on Form 1040 depends on whether the amount is from an activity that is a passive activity to you. If you are an individual partner filing a 2018 Form 1040, find your situation below and report your box 1 income (loss) as instructed, after applying the basis and at-risk limitations on losses. If the partnership had more than one trade or business activity, it will attach a statement identifying the income or loss from each activity.

1. Report box 1 income (loss) from partnership trade or business activities in which you materially participated on Schedule E (Form 1040), line 28, column (i) or (k).
2. Report box 1 income (loss) from partnership trade or business activities in which you didn’t materially participate, as follows:
   a. If income is reported in box 1, report the income on Schedule E (Form 1040), line 28, column (h). However, if the box in item D is checked, report the income following the rules for Publicly traded partnerships, earlier.
   b. If a loss is reported in box 1, follow the Instructions for Form 8582 to figure how much of the loss can be reported on Schedule E (Form 1040), line 28, column (g). However, if the box in item D is checked, report the loss following the rules for Publicly traded partnerships, earlier.

Box 2. Net Rental Real Estate Income (Loss)

Generally, the income (loss) reported in box 2 is a passive activity amount for all partners. However, the income (loss) in box 2 isn’t from a passive activity if you were a real estate professional (defined earlier) and you materially participated in the activity.

If the partnership had more than one rental real estate activity, it will attach a statement identifying the income or loss from each activity.

If you are filing a 2018 Form 1040, use the following instructions to determine where to report a box 2 amount.

1. If you have a loss from a passive activity in box 2 and you meet all the following conditions, report the loss on Schedule E (Form 1040), line 28, column (g).
   a. You actively participated in the partnership rental real estate activities. See Special allowance for a rental real estate activity, earlier.
   b. Rental real estate activities with active participation were your only passive activities.
   c. You have no prior year unallowed losses from these activities.
   d. Your total loss from the rental real estate activities wasn’t more than $25,000 (not more than $12,500 if married filing separately and you lived apart from your spouse all year).
   e. If you are a married person filing separately, you lived apart from your spouse all year.
   f. You have no current or prior year unallowed credits from a passive activity.
   g. Your modified adjusted gross income wasn’t more than $100,000 (not more than $50,000 if married filing separately and you lived apart from your spouse all year).
   h. Your interest in the rental real estate activity wasn’t held as a limited partner.

2. If you have a loss from a passive activity in box 2 and you do not meet all the conditions in (1) above, follow the Instructions for Form 8582 to figure how much of the loss you can report on Schedule E (Form 1040), line 28, column (g). However, if the box in item D is checked, report the loss following the rules for Publicly traded partnerships, earlier.

3. If you were a real estate professional and you materially participated in the activity, report box 2 income (loss) on Schedule E (Form 1040), line 28, column (i) or (k).

4. If you have income from a passive activity in box 2, report the income on Schedule E (Form 1040), line 28, column (h). However, if the box in item D is checked, report the income following the rules for Publicly traded partnerships, earlier.

Box 3. Other Net Rental Income (Loss)

The amount in box 3 is a passive activity amount for all partners. If the partnership had more than one rental activity, it will attach a statement identifying the income or loss from each activity. Report the income or loss as follows.

1. If box 3 is a loss, follow the Instructions for Form 8582 to figure how much of the loss can be reported on Schedule E (Form 1040), line 28, column (g). However, if the box in item D is checked,
Box 4. Guaranteed Payments

Generally, amounts on this line are not passive income, and you should report them on Schedule E (Form 1040), line 28, column (k) (for example, guaranteed payments for personal services).

Portfolio Income

Portfolio income or loss (shown in boxes 5 through 9b and in box 11, code A) isn’t subject to the passive activity limitations. Portfolio income includes income (not derived in the ordinary course of a trade or business) from interest, ordinary dividends, annuities or royalties, and gain or loss on the sale of property that produces such income or is held for investment.

Box 5. Interest Income

Report interest income on line 2b of Form 1040. If the amount of interest income included in box 5 includes interest from the credit for holders of clean renewable energy bonds, the partnership will attach a statement to Schedule K-1 identifying the credit for holders of clean renewable energy bonds. Because the basis of your interest in the partnership has been increased by your share of the interest income from these credits, you must reduce your basis by the same amount. See line 4 of the Worksheet for Adjusting the Basis of a Partner’s Interest in the Partnership.

Box 6a. Ordinary Dividends

Report ordinary dividends on line 3b of Form 1040.

Box 6b. Qualified Dividends

Report any qualified dividends on line 3a of Form 1040.

Box 7. Royalties

Report royalties on Schedule E (Form 1040), line 4.

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

Report the net short-term capital gain (loss) on Schedule D (Form 1040), line 5.

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

Report the net long-term capital gain (loss) on Schedule D (Form 1040), line 12.

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

Report collectibles gain or loss on line 4 of the 28% Rate Gain Worksheet - Line 18 in the Instructions for Schedule D (Form 1040).

Box 9c. Unrecaptured Section 1250 Gain

There are three types of unrecaptured section 1250 gain. Report your share of this unrecaptured gain on the Unrecaptured Section 1250 Gain Worksheet - Line 19 in the Instructions for Schedule D (Form 1040) as follows:

- Report unrecaptured section 1250 gain from the sale or exchange of the partnership’s business assets on line 5.
- Report unrecaptured section 1250 gain from the sale or exchange of an interest in a partnership on line 10.
- Report unrecaptured section 1250 gain from an estate, trust, regulated investment company (RIC), or real estate investment trust (REIT) on line 11.

If the partnership reports only unrecaptured section 1250 gain from the sale or exchange of its business assets, it will enter a dollar amount in box 9c. If it reports the other two types of unrecaptured gain, it will provide an attached statement that shows the amount for each type of unrecaptured section 1250 gain.

Box 10. Net Section 1231 Gain (Loss)

The amount in box 10 is generally passive if it is from a:

- Rental activity, or
- Trade or business activity in which you didn’t materially participate.

However, an amount from a rental real estate activity isn’t from a passive activity if you were a real estate professional (defined earlier) and you materially participated in the activity.

If the amount is either (a) a loss that isn’t from a passive activity or (b) a gain, report it on line 2, column (g), of Form 4797, Sales of Business Property. Do not complete columns (b) through (f) on line 2 of Form 4797.

Instead, enter “From Schedule K-1 (Form 1065)” across these columns.

If the amount is a loss from a passive activity, see Passive Loss Limitations in the Instructions for Form 4797. Report the loss following the instructions for Form 8582 to figure how much of the loss is allowed on Form 4797. However, if the box in item D is checked, report the loss following the rules for Publicly traded partnerships, earlier. If the partnership had net section 1231 gain (loss) from more than one activity, it will attach a statement that will identify the section 1231 gain (loss) from each activity.

Box 11. Other Income (Loss)

Code A. Other portfolio income (loss).

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

If the partnership held a residual interest in a real estate mortgage investment conduit (REMIC), it will report on the statement your share of REMIC taxable income (net loss) that you report on Schedule E (Form 1040), line 38, column (d). The statement will also report your share of any “excess inclusion” that you report on Schedule E (Form 1040), line 38, column (c), and your share of section 212 expenses that you report on Schedule E (Form 1040), line 38, column (e).

Code B. Involuntary conversions. This is your net gain (loss) from involuntary conversions due to casualty or theft. The partnership will give you a statement that shows the amounts to be reported on Form 4684, Casualties and Thefts, line 34, columns (b)(i), (b)(ii), and (c).

If there was a gain (loss) from a casualty or theft to property not used in a trade or business or for income-producing purposes, the partnership will provide you with the information you need to complete Form 4684.

Code C. Section 1256 contracts and straddles. The partnership will report any
net gain or loss from section 1256 contracts. Report this amount on Form 6781, Gains and Losses From Section 1256 Contracts and Straddles.

**Code D. Mining exploration costs recapture.** The partnership will give you a statement that shows the information needed to recapture certain mining exploration costs (section 617). See Pub. 535 for details.

**Code E. Cancellation of debt.** Generally, this cancellation of debt (COD) amount is included in your gross income (Schedule 1 (Form 1040), line 21). Under section 108(b)(5), you may elect to apply any portion of the COD amount excluded from gross income to the reduction of the basis of depreciable property. See Form 982 for more details.

**Code F. Section 951A income.** The partnership will provide information you need to figure section 951A income. Report your section 951A income on Schedule 1 (Form 1040), line 21, or the comparable line of your income tax return. For details, see the Instructions for Form 8992, U.S. Shareholder Calculation of Global Intangible Low-Taxed Income (GILTI).

If you are eligible for and wish to claim a deduction under section 250 from your GILTI inclusion, see Form 8993, Section 250 Deduction for Foreign Derived Intangible Income (FDII) and Global Intangible Low-Taxed Income (GILTI), and its instructions.

**Code G. Section 965(a) inclusion.** The partnership will provide your share of the section 965(a) inclusions. See the Instructions for Form 865 and the Instructions for Form 865-A for more details.

**Code H. Subpart F income other than sections 951A and 965 inclusions.** The partnership will provide your share of subpart F inclusions other than sections 951A and 965 inclusions.

Attach a statement to the Schedule K-1 identifying any subpart F inclusion attributable to:

- The sale or exchange by a controlled foreign corporation (CFC) of stock in another foreign corporation described in section 964(e)(4), or
- Hybrid dividends of tiered corporations under section 245A(e)(2).

**Code I. Other income (loss).** Amounts with code I are other items of income, gain, or loss not included in boxes 1 through 10 or reported in box 11 using codes A through H. The partnership should give you a description and the amount of your share for each of these items.

Report loss items that are passive activity amounts to you following the Instructions for Form 8582. However, if the box in item D is checked, report the loss following the rules for Publicly traded partnerships, earlier.

Code I items may include the following:

- Gain or loss attributable to the sale or exchange of qualified preferred stock of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). The partnership will report on an attached statement the amount of gain or loss attributable to the sale or exchange of the qualified preferred stock, the date the stock was acquired by the partnership, and the date the stock was sold or exchanged by the partnership. If the partner is not a financial institution, report the gain or loss on line 5 or line 12 of Schedule D (Form 1040) in accordance with the instructions for Schedule D (Form 1040) and the Instructions for Form 8949. If a partner is a financial institution referred to in section 582(c)(2) or a depositary institution holding company (as defined in section 3(w)(1) of the Federal Deposit Insurance Act), report the gain or loss in accordance with the Instructions for Form 4797, and Rev. Proc. 2008-64, 2008-47 I.R.B. 1195.
- Partnership gains from the disposition of farm recapture property (see the instructions for line 27 of Form 9737 and other items to which section 252 applies).
- Income from recoveries of tax benefit items. A tax benefit item is an amount you deducted in a prior tax year that reduced your income tax. Report this amount on Schedule 1 (Form 1040), line 21 to the extent it reduced your tax in the prior tax year.
- Gambling gains and losses.
  1. If the partnership wasn’t engaged in the trade or business of gambling, (a) report gambling winnings on Schedule 1 (Form 1040), line 21, and (b) deduct gambling losses to the extent of winnings on Schedule A (Form 1040), line 16.
  2. If the partnership was engaged in the trade or business of gambling, (a) report gambling winnings on line 28 of Schedule E (Form 1040), and (b) deduct gambling losses (to the extent of winnings) on line 28 of Schedule E (Form 1040), column (i).
- Gain (loss) from the disposition of an interest in oil, gas, geothermal, or other mineral properties. The partnership will attach a statement that provides a description of the property, your share of the amount realized from the disposition, your share of the partnership’s adjusted basis in the property (for other than oil or gas properties), and your share of the total intangible drilling costs, development costs, and mining exploration costs (section 59(e) expenditures) passed through for the property. You must figure your gain or loss from the disposition of your share of the adjusted basis by the intangible drilling costs, development costs, or mine exploration costs for the property that you capitalized (that is, costs that you didn’t elect to deduct under section 59(e)). Report a loss in Part I of Form 4797. Report a gain in Part III of Form 4797 in accordance with the instructions for line 28. See Regulations section 1.1254-5 for details.
- Any income, gain, or loss to the partnership under section 751(b)(certain distributions treated as sales or exchanges). Report this amount on Form 4797, line 10.
- Specially allocated ordinary gain (loss). Report this amount on Form 4797, line 10.
- Net short-term capital gain (loss) and net long-term capital gain (loss) from Schedule D (Form 1065) that isn’t portfolio income. An example is gain or loss from the disposition of nondepreciable personal property used in a trade or business activity of the partnership. Report total net short-term gain (loss) on Schedule D (Form 1040), line 5. Report the total net long-term gain (loss) on Schedule D (Form 1040), line 12.
- Current year section 108(b) cancellation of debt (COD) income. The partnership will provide your share of the deferred COD income amount that you must include in income in the current tax year under section 108(b)(1) or section 108(b)(5)(D)(ii) or (iii).
- Gain from the sale or exchange of qualified small business (QSB) stock (as defined in the Instructions for Schedule D (Form 1065)) that is eligible for a section 1202 exclusion. The partnership should also give you the name of the corporation that issued the QSB stock, your share of the partnership’s adjusted basis and sales price of the QSB stock, and the dates the QSB stock was bought and sold. Corporate partners are not eligible for the section 1202 exclusion. The following additional limitations apply at the partner level.
  1. You must have held an interest in the partnership when the partnership acquired the QSB stock and at all times thereafter until the partnership disposed of the QSB stock.
  2. Your share of the eligible section 1202 gain cannot exceed the amount that would have been allocated to you based on your interest in the partnership at the time the QSB stock was acquired.

See the Instructions for Schedule D (Form 1040) and the Instructions for Form 8949 for details on how to report the gain and the amount of the allowable exclusion.

- Gain eligible for section 1045 rollover.

Replacement stock purchased by the partnership. The partnership should give you the name of the corporation that issued the qualified small business (QSB) stock, your share of the partnership’s adjusted basis and sales price of the QSB stock, the dates the QSB stock was bought and sold, your share of gain from the sale of the QSB stock, and the amount of the gain that was deferred by the partnership under section 1045. Corporate partners are not eligible for the section 1045 rollover. To qualify for the section 1045 rollover:
  1. You must have held an interest in the partnership during the entire period in which the partnership held the QSB stock (more than 6 months prior to the sale), and
  2. Your share of the gain eligible for the section 1045 rollover cannot exceed the amount that would have been allocated to you based on your interest in the partnership at the time the QSB stock was acquired.

See the Instructions for Schedule D (Form 1040) and the Instructions for Form 8949 for details on how to report the gain.
and the amount of the allowable postponed gain.

**Opting out of partnership election.** You can opt out of the partnership’s section 1045 election and either (1) recognize the gain or (2) elect to purchase different replacement QSB stock, either directly or through ownership of a different partnership that acquired replacement QSB stock. You satisfy the requirement to purchase replacement QSB stock if you own an interest in a partnership that purchases QSB stock during the 60-day period. You also must notify, in writing, if you opt out of the partnership’s section 1045 election. If you recognize gain, you must notify the partnership, in writing, of the amount of the gain that you are recognizing.

**Replacement stock not purchased by the partnership.** The partnership should give you (a) the name of the corporation that issued the QSB stock, (b) your share of the partnership’s adjusted basis and sales price of the QSB stock, (c) the dates the QSB stock was bought and sold, and (d) your share of gain from the sale of the QSB stock. Corporate partners are not eligible for the section 1045 rollover. To qualify for the section 1045 rollover:

1. You must have held an interest in the partnership during the entire period in which the partnership held the QSB stock.
2. Your share of the gain eligible for the section 1045 rollover cannot exceed the amount that would have been allocated to you based on your interest in the partnership at the time the QSB stock was acquired, and
3. You must purchase other QSB stock (as defined in the Instructions for Schedule D (Form 1040)) during the 60-day period that began on the date the QSB stock was sold by the partnership.

See the Instructions for Schedule D (Form 1040) and the Instructions for Form 8949 for details on how to report the gain and the amount of the allowable postponed gain.

**Making the section 1045 election.** You make a section 1045 election on a timely filed return for the tax year during which the partnership’s tax year ends. See the Instructions for Form 8949 and the Instructions for Schedule D (Form 1040) for more information. Attach to your Schedule D (Form 1040) a statement that includes the following information for each amount of gain that you do not recognize under section 1045.

- The name of the corporation that issued the QSB stock.
- The name and EIN of the selling partnership.
- The dates the QSB stock was purchased and sold.
- The amount of gain that isn’t recognized under section 1045.
- If a partner purchases QSB stock, the name of the corporations that issued the replacement QSB stock, the date the stock was purchased, and the cost of the stock purchased.
- If a partner treats the partner’s interest in QSB stock that is purchased by a purchasing partnership as the partner’s replacement QSB stock, the name and EIN of the purchasing partnership, the name of the corporation that issued the replacement QSB stock, the partner’s share of the cost of the QSB stock that was purchased by the partnership, the computation of the partner’s adjustment to basis with respect to that QSB stock, and the date the stock was purchased by the partnership.

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

For more information, see Regulations section 1.1045-1.

**Deductions**

**Box 12. Section 179 Deduction**

Use this amount, along with the total cost of section 179 property placed in service during the year from other sources, to complete Part I of Form 4562, Depreciation and Amortization. The partnership will report on an attached statement your allowable share of the cost of any qualified enterprise zone or qualified real property it placed in service during the tax year. Report the amount from line 12 of Form 4562 allocable to a passive activity using the Instructions for Form 8582. If the amount isn’t a passive activity deduction, report it on Schedule E (Form 1040), line 28, column (j). However, if the box in item D is checked, report this amount following the rules for Publicly traded partnerships, earlier.

**Box 13. Other Deductions**

**Contributions, Codes A through G.** The partnership will give you a statement that shows charitable contributions subject to the 100%, 60%, 50%, 30%, and 20% adjusted gross income (AGI) limitations. For more details, see Pub. 526, Charitable Contributions, and the Instructions for Schedule A (Form 1040). If your contributions are subject to more than one of the AGI limitations, see Worksheet 2.

**Applying the Deduction Limits in Pub. 526.**

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

**Code A. Cash contributions (60%).** Report this amount, subject to the 60% AGI limitation, on line 11 of Schedule A (Form 1040).

**Code B. Cash contributions (30%).** Report this amount, subject to the 30% AGI limitation, on line 11 of Schedule A (Form 1040).

**Code C. Noncash contributions (50%).** If property other than cash is contributed, and if the claimed deduction for one item or group of similar items of property exceeds $5,000, the partnership must give you a copy of Form 8283, Noncash Charitable Contributions, to attach to your tax return. Do not deduct the amount shown on Form 8283. It is the partnership’s contribution. Instead, deduct the amount identified by code C, box 13, subject to the 50% AGI limitation, on line 12 of Schedule A (Form 1040).

If the partnership provides you with information that the contribution was property other than cash and doesn’t give you a Form 8283, see the Instructions for Form 8283 for filing requirements. Do not file Form 8283 unless the total claimed deduction for all contributed items of property exceeds $500.

**Food inventory contributions.** The partnership will report on an attached statement your share of qualified food inventory contributions. The food inventory contribution isn’t included in the amount reported in box 13 using code C. The partnership will also report your share of the partnership’s net income from the business activities that made the food inventory contribution(s). Your deduction for food inventory contributions cannot exceed 15% of your aggregate net income for the tax year from the business activities from which the food inventory contribution was made (including your share of net income from partnership or S corporation businesses that made food inventory contributions). Amounts that exceed the 15% limitation may be carried over for up to 5 years. Report the deduction, subject to the 50% AGI limitation, on line 12 of Schedule A (Form 1040).

**Code D. Noncash contributions (30%).** Report this amount, subject to the 30% AGI limitation, on line 12 of Schedule A (Form 1040).

**Code E. Capital gain property to a 50% organization (30%).** Report this amount, subject to the 30% AGI limitation, on line 12 of Schedule A (Form 1040). See Special 30% Limit for Capital Gain Property in Pub. 526.

**Code F. Capital gain property (20%).** Report this amount, subject to the 20% AGI
limitation, on line 12 of Schedule A (Form 1040).

**Code G. Contributions (100%).** The partnership will report your distributive share of the following contributions (both cash and noncash) that may be subject to the 100% AGI limitation.

- **Qualified conservation contributions of property used in agriculture or livestock production.** The partnership will report your share of qualified conservation contributions of property used in agriculture or livestock production. This contribution isn’t included in the amount reported in box 13 using code C. If you are a farmer or rancher, you qualify for a 100% AGI limitation for this contribution. Otherwise, your deduction for this contribution is subject to a 50% AGI limitation. Report this deduction on line 12 of Schedule A (Form 1040). See Pub. 526 for more information on qualified conservation contributions.

- **Cash contributions for relief efforts in certain disaster areas.** The partnership will report your share of qualified cash contributions report the amount on a separate line in column (i) of line 28 if you elect to amortize them, report the amount on line 28, column (i), of Schedule E (Form 1040). The partnership will provide a statement showing the amount of the deduction for you, your spouse, your dependents, and your children under age 27 who are not dependents. On Schedule 1 (Form 1040), line 29, you may be allowed to deduct such amounts, even if you do not itemize deductions. If you do itemize deductions, enter on line 1 of Schedule A (Form 1040) any amounts not deducted on Schedule 1 (Form 1040), line 29.

- **Code N. Educational assistance benefits.** Deduct your educational assistance benefits on a separate line of Schedule E (Form 1040), line 28, up to the $5,250 limitation. If your benefits exceed $5,250, you may be able to use the excess amount on Form 8863 to figure the education credits.

- **Code O. Dependent care benefits.** The partnership will report the dependent care benefits you received. You must use Form 2441, Part III, to figure the amount, if any, of the benefits you may exclude from your income.

- **Code P. Preproduction period expenses.** You may be able to deduct these expenses currently or you may need to capitalize them under section 263A. See Pub. 225, Farmer’s Tax Guide, and Regulations section 1.263A-4 for details.

- **Code Q. Commercial revitalization deduction from rental real estate activities.** Follow the Instructions for Form 8582 to figure how much of the deduction can be reported on Schedule E (Form 1040), line 28, column (g).

- **Code R. Pensions and IRAs.** Payments made on your behalf to an IRA, qualified plan, simplified employee pension (SEP), or a SIMPLE IRA plan. See the Schedule 1 (Form 1040) instructions for line 32 to figure your IRA deduction. Enter payments made to a qualified plan, SEP, or SIMPLE IRA plan on Schedule 1 (Form 1040), line 28. If the payments to a qualified plan were to a defined benefit plan, the partnership should give you a statement showing the amount of the benefit accrued for the current tax year.

- **Code S. Reforestation expense deduction.** The partnership will provide a statement that describes the qualified timber property for these reforestation expenses. The expense deduction is limited to $10,000 ($5,000 if married filing separately) for each qualified timber property, including your share of the partnership’s expense and any reforestation expenses you separately paid or incurred during the tax year.

- **Code T through V.** These codes are reserved for future use.

- **Code W. Other deductions.** Amounts with this code may include the following.
  - Itemized deductions that Form 1040 filers report on Schedule A (Form 1040).
  - Soil and water conservation expenditures and endangered species recovery expenditures. See section 175 for limitations on the amount you are allowed to deduct.
  - Expenditures for the removal of architectural and transportation barriers to the elderly and disabled that the partnership elected to treat as a current expense. The deductions are limited by section 190(c) to $15,000 per year from all sources.
  - Interest expense allocated to debt-financed distributions. The manner in
which you report such interest expense depends on your use of the distributed debt proceeds. If the proceeds were used in a trade or business activity, report the interest on line 28 of Schedule E (Form 1040). In column (a), enter the name of the partnership and "interest expense." If you materially participated in the trade or business activity, report the interest expense in column (i). If you didn’t materially participate in the activity, follow the Instructions for Form 8582 to figure the interest expense you can report in column (g). See the definition of material participation, earlier. If the proceeds were used in an investment activity, report the interest on Form 4952. If the proceeds are used for personal purposes, the interest is generally not deductible.

- Interest paid or accrued on debt properly allocable to your share of a working interest in any oil or gas property (if your liability isn’t limited), if you didn’t materially participate in the oil or gas activity, this interest is investment interest reportable as described earlier under Code H. Investment interest expense; otherwise, it is trade or business interest. If you didn’t materially participate in the oil or gas activity, this interest is investment interest expense and should be reported on Form 4952. If you materially participated in the activity, report the interest on line 28 of Schedule E (Form 1040). On a separate line, enter "interest expense" and the name of the partnership in column (a) and the amount in column (i).

- Contributions to a capital construction fund (CCF). The deduction for a CCF investment isn’t taken on Schedule E (Form 1040). Instead, you subtract the deduction from the amount that would normally be entered as taxable income on line 10 of Form 1040. In the margin to the left of line 10, enter "CCF" and the amount of the deduction.

- Penalty on early withdrawal of savings. Report this amount on Schedule 1 (Form 1040), line 30.

- Film, television, and live theatrical production expenses. The partnership will provide a statement that describes the film, television, or live theatrical production generating these expenses. Generally, if the aggregate cost of the production exceeds $15 million, you are not entitled to the deduction. The limitation is $20 million for productions in certain areas (see section 181 for details). If you didn’t materially participate in the activity, use Form 8582 to determine the amount that can be reported on Schedule E (Form 1040), line 28, column (g). If you materially participated in the production activity, report the deduction on Schedule E (Form 1040), line 28, column (l).

- Current year section 108(i) original issue discount (OID) deduction. The partnership will provide your share of the partnership’s OID deduction. The procedures were used under section 108(i)(2)(A)(i) that is allowable as a deduction in the current tax year under section 108(i)(2)(A)(ii) or section 108(i)(5)(D) (i) or (ii).

- Domestic productions activities deduction (DPAD). The DPAD has been repealed for tax years beginning after 2017. However, if your tax year begins after 2017, the DPAD can be taken in limited circumstances. See Form 8903 and its instructions for details. If you qualify for the DPAD, the partnership will provide you with a statement with information that you can use to figure the DPAD. Report the qualified production activities income (QPAI) reported to you by the partnership in the applicable column of Form 8903, line 7. Report the portion of Form W-2 wages reported to you by the partnership on line 17 of Form 8903.

- Deductions - portfolio (formerly deductible by individuals under section 67 subject to 2% AGI floor). For taxpayers other than individuals, deduct amounts that are clearly and directly allocable to portfolio income (other than investment interest expense and section 212 expenses from a REMIC).

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

**Code X. Section 965(c) deduction.** The partnership will provide information on your share of the section 965(c) deduction. See Form 965, Form 965-A, and the related instructions for more detail.

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**Box 14. Self-Employment Earnings (Loss)**

If you and your spouse are both partners, each of you must complete and file your own Schedule SE (Form 1040), Self-Employment Tax, to report your partnership net earnings (loss) from self-employment.

**Code A. Net earnings (loss) from self-employment.** If you are a general partner, reduce this amount before entering it on Schedule SE (Form 1040) by any section 179 expense deduction claimed, unreimbursed partnership expenses claimed, and depletion claimed on oil and gas properties. Do not reduce net earnings from self-employment by any separately stated deduction for health insurance expenses.

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

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

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

**Code B. Gross farming or fishing income.** If you are an individual partner, enter the amount from this line, as an item of information, on Schedule SE (Form 1040), line 42. Also use this amount to figure net earnings from self-employment under the farm optional method on Schedule SE (Form 1040), Schedule B, Part II.

**Code C. Gross nonfarm income.** If you are an individual partner, use this amount to figure net earnings from self-employment under the nonfarm optional method on Schedule SE (Form 1040), Schedule B, Part II.

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**Box 15. Credits**

If you have credits that are passive activity credits to you, you must complete Form 8582-CR (or Form 8810 for corporations) in addition to the credit forms identified below. See Passive Activity Limitations, earlier, and the instructions for Form 8582-CR (or Form 8810) for details.

**TIP** Generally, you are not required to complete the source credit form or attach it to Form 3800 if you are a taxpayer that isn’t a partnership or S corporation, and your only source for a credit listed in Form 3800, Part III, is from a partnership, S corporation, estate, trust, or cooperative. (Instead, you can report this credit directly on Form 3800, Part III, and enter the EIN of the partnership in column (b) of Part III.) The following exceptions apply.

- You are claiming the investment credit (Form 3468) or the biodiesel and renewable diesel fuels credit (Form 8804) in Part III with box A or B checked.

The taxpayer is an estate or trust and the source credit can be allocated to beneficiaries. For more details, see the Instructions for Form 1041, U.S. Income Tax Return for Estates and Trusts, Schedule K-1, line 23.

- The taxpayer is a cooperative and the source credit can or must be allocated to patrons. For more details, see the Instructions for Form 1120-C, U.S. Income Tax Return for Cooperative Associations, Schedule J, line 5c.

**Codes A, B, C, and D. Low-income housing credit.** If section 42(j)(5) applies, the partnership will report your share of the low-income housing credit using code A or code C, depending on the date the building was placed in service. If section 42(j)(5) doesn’t apply, your share of the credit will be reported using code B or code D, depending on the date the building was placed in service. Any allowable low-income housing credit reported using code A or code B is reported on line 4 of Form 8586, Low-Income Housing Credit, or line 1d of Form 3800 (see TIP, earlier). Any allowable low-income housing credit reported using code C or code D is reported on line 11 of Form 8586 or line 4d of Form 3800.

Keep a separate record of the low-income housing credit from each separate source so that you can correctly figure any recapture of low-income housing credit that may result from the disposition of all or part of your partnership interest. For more information on recapture, see the Instructions for Form 8611, Recapture of Low-Income Housing Credit.

**Code E. Qualified rehabilitation expenditures (rental real estate).** The partnership will report your share of the qualified rehabilitation expenditures and other information you need to complete Form 3468 related to rental real estate activities using code E. Your share of qualified rehabilitation expenditures from property not related to
rental real estate activities will be reported in box 20 using code D. See the Instructions for Form 3468 for details. If the partnership is reporting expenditures from more than one activity, the attached statement will separately identify the expenditures from each activity.

Combine the expenditures (for Form 3468 reporting) from box 15, code E, and box 20, code D. The expenditures related to rental real estate activities (box 15, code E) are reported on Schedule K-1 separately from other qualified rehabilitation expenditures (box 20, code D) because they are subject to different passive activity limitation rules. See the Instructions for Form 8582-CR for details.

**Code F. Other rental real estate credits.** The partnership will identify the type of credit and any other information you need to figure these credits from rental real estate activities (other than the low-income housing credit and qualified rehabilitation expenditures). These credits may be limited by the passive activity limitations. If the credits are from more than one activity, the partnership will identify the credits from each activity on an attached statement. See Passive Activity Limitations, earlier, and the Instructions for Form 8582-CR for details.

**Code G. Other rental credits.** The partnership will identify the type of credit and any other information you need to figure these rental credits. These credits may be limited by the passive activity limitations. If the credits are from more than one activity, the partnership will identify the credits from each activity on an attached statement. See Passive Activity Limitations, earlier, and the Instructions for Form 8582-CR for details.

**Code H. Undistributed capital gains credit.** Code H represents taxes paid on undistributed capital gains by a regulated investment company or real estate investment trust. Report these taxes on Schedule 5 (Form 1040), line 74, check box “a” for Form 2439, and enter “Form 1065.”

**Code I. Biofuel producer credit.** Report this amount on line 3 of Form 6478, Biofuel Producer Credit, or line 4c of Form 3800, Part III (see TIP, earlier).

**Code J. Work opportunity credit.** Report this amount on line 3 of Form 5884, Work Opportunity Credit, or line 4b of Form 3800, Part III (see TIP, earlier).

**Code K. Disabled access credit.** Report this amount on line 7 of Form 8826, Disabled Access Credit, or line 1e of Form 3800, Part III (see TIP, earlier).

**Code L. Empowerment zone employment credit.** Report this amount on line 3 of Form 8844, Empowerment Zone Employment credit, or line 3 of Form 3800, Part III (see TIP, earlier).

**Code M. Credit for increasing research activities.** Report this amount on line 37 of Form 6765, Credit for Increasing Research Activities, or in Part III of Form 3800 (see TIP, earlier) as follows.

- The partnership will provide information necessary to determine if it is an eligible small business under section 38(c)(4)(C). If you and the partnership are eligible small businesses, report the credit on line 4i.
- For more information, see the Instructions for Form 3800.
- All others, report the credit on line 1c.

**Code N. Credit for employer social security and Medicare taxes.** Report this amount on line 5 of Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips, or line 4f of Form 3800, Part III (see TIP, earlier).

**Code O. Backup withholding.** This is your share of the credit for backup withholding on dividends, interest income, and other types of income. Include this amount in the total you enter on Form 1040, line 16, and attach a copy of the Schedule K-1 to your tax return. Instead of attaching a copy of the Schedule K-1 to the tax return, you can include a statement with the return that provides the partnership’s name, address, EIN, and backup withholding amount.

**Code P. Other credits.** On a statement attached to Schedule K-1, the partnership will identify the type of credit and any other information you need to figure credits other than those reported with codes A through O. Most credits identified by code P will be reported on Form 3800 (see TIP, earlier).

Credits that may be reported with code P include the following.
- New markets credit (Form 8874).
- Qualified railroad track maintenance credit (Form 8900).
- Unused investment credit from the qualifying advanced coal project credit, or qualifying advanced energy project credit allocated from cooperatives (Form 3468, line 9).
- Unused investment credit from the rehabilitation credit or energy credit allocated from cooperatives (Form 3468, line 13).
- Renewable electricity, refined coal, and Indian coal production credit. The partnership will provide a statement showing the allocation of the credit for production during the 4-year period beginning on the date the facility was placed in service and for production after that period.
- Indian employment credit (Form 8845).
- Orphan drug credit (Form 8820).
- Enhanced oil recovery credit (Form 8830).
- Credit for small employer pension plan startup costs (Form 8881).
- Credit for employer-provided childcare facilities and services (Form 8882).
- Biorenewable and renewable diesel fuels credit. If this credit includes the small agri-biodiesel producer credit, the partnership will provide additional information on an attached statement. If no statement is attached, report this amount on line 9 of Form 8864. If a statement is attached, see the instructions for Form 8864, line 9.
- Low sulfur diesel fuel production credit (Form 8898).
- General credits from an electing large partnership. Report these credits on Form 3800, Part III, line 1bb.
- Oil and gas production from marginal wells (Form 8904).
- Distillers spirits credit (Form 8906).
- Energy efficient home credit (Form 8908).
- Alternative motor vehicle credit (Form 8910).
- Alternative fuel vehicle refueling property credit (Form 8911).
- Clean renewable energy bond credit. Report this amount on Form 8912.
- New clean renewable energy bond credit. Report this amount on Form 8912.
- Qualified energy conservation bond credit. Report this amount on Form 8912.
- Qualified zone academy bond credit. Report this amount on Form 8912.
- Qualified school construction bond credit. Report this amount on Form 8912.
- Build America bond credit. Report this amount on Form 8912.
- Mine rescue team training credit (Form 8923).
- Agricultural chemicals security credit (Form 8931).
- Credit for employer differential wage payments (Form 8932).
- Carbon oxide sequestration credit (Form 8933).
- Qualified plug-in electric drive motor vehicle credit (Form 8936).
- Credit for small employer health insurance premiums (Form 8941).
- Employer credit for paid family and medical leave (Form 8994).

**Box 16. Foreign Transactions**

**Codes A through R.** Use the information identified by codes A through R, code W, code X, and any attached statements to figure your foreign tax credit.

**CAUTION**

Taxpayers filing Form 1116 - If you have any qualified dividends, capital gains (including any capital gain distributions), capital losses, collectible gains, collectible losses, unreaptured section 1250 gain, net section 1231 gain, or net section 1231 losses, you may have to make certain adjustments to those amounts before taking them into account on Form 1116.

For details, see Form 1116, Foreign Tax Credit, and its instructions; Form 1118, Foreign Tax Credit - Corporations, and its instructions; and Pub. 514, Foreign Tax Credit for Individuals.

**Codes S and T. Extraterritorial income exclusion.**

1. Partnership did not claim the exclusion. If the partnership reports your share of foreign trading gross receipts (code S) and the extraterritorial income exclusion (code T), the partnership wasn’t entitled to claim the exclusion because it didn’t meet
and the related regulations for rules regarding splitter arrangements.

When the gain deferral method, as described in Temporary Regulations section 1.721(c)-3T is being applied, a partnership that is a section 721(c) partnership will attach to the Schedule K-1 provided to a U.S. transferor the information required under Temporary Regulations section 1.721(c)-6T(b)(2) and (3). A partnership that is a section 721(c) partnership will also attach to its Form 1065 a Schedule K-1 for each partner that is a related foreign person with respect to the U.S. transferor. For an indirect partner that is a related foreign person with respect to the U.S. transferor, the Schedule K-1 will only include relevant information with respect to section 721(c) property. See Temporary Regulations section 1.721(c)-1T for definitions.

Box 17. Alternative Minimum Tax (AMT) Items

Use the information reported in box 17 (as well as your adjustments and tax preference items from other sources) to prepare your Form 6251, Alternative Minimum Tax - Individuals. Form 4626, Alternative Minimum Tax - Corporations; or Schedule I (Form 1041), Alternative Minimum Tax - Estates and Trusts.

Box 18. Tax-Exempt Income and Nondeductible Expenses

Code A. Tax-exempt interest income. Report on your return, as an item of information, your share of the tax-exempt interest received or accrued by the partnership during the year. Individual partners include this amount on Form 1040, line 2a. Increase the adjusted basis of your interest in the partnership by this amount.

Code B. Other tax-exempt income. Increase the adjusted basis of your interest in the partnership by the amount shown, but do not include it in income on your tax return.

Box 19. Distributions

Code A. Cash and marketable securities. Code A shows the distributions the partnership made to you of cash and certain marketable securities. The marketable securities are included at their fair market value (FMV) on the date of distribution (minus your share of the partnership’s gain on the securities distributed to you). If the amount shown as code A exceeds the adjusted basis of your partnership interest immediately before the distribution, the excess is treated as gain from the sale or exchange of your partnership interest. Generally, this gain is treated as gain from the sale of a capital asset and should be reported on Form 8949 and the Schedule D for your return. However, if you receive cash or property in exchange for any part of a partnership interest, the amount of the distribution attributable to your share of the partnership’s unrealized receivable or inventory items results in ordinary income (see Regulations sections 1.751-1(a) and Sale or Exchange of Partnership Interest, earlier). For details, see Pub. 541.

The partnership will separately identify both of the following.

- The FMV of the marketable securities when distributed (minus your share of the gain on the securities distributed to you).
- The partnership’s adjusted basis of those securities immediately before the distribution.

Decrease the adjusted basis of your interest in the partnership (but not below zero) by the amount of cash distributed to...
you and the partnership’s adjusted basis of the distributed securities. Advances or drawings of money or property against your share are treated as current distributions made on the last day of the partnership’s tax year.

Your basis in the distributed marketable securities (other than in liquidation of your interest) is the smaller of:
- The partnership’s adjusted basis in the securities immediately before the distribution increased by any gain recognized on the distribution of the securities, or
- The adjusted basis of your partnership interest reduced by any cash distributed in the same transaction and increased by any gain recognized on the distribution of the securities.

If you received the securities in liquidation of your partnership interest, your basis in the marketable securities is equal to the adjusted basis of your partnership interest reduced by any cash distributed in the same transaction and increased by any gain recognized on the distribution of the securities.

**Code B. Distribution subject to section 737.** If a partner contributed section 704(c) built-in gain property within the last 7 years and the partnership made a distribution of property to that partner other than the previously contributed built-in gain property, the partner may be required to recognize gain under section 737. This gain is in addition to any gain recognized under section 731 on the distribution.

When this occurs, the partnership will enter code B in box 19 of the contributing partner’s Schedule K-1 and attach a statement that provides the information the partner needs to figure the recognized gain under section 737. The partnership is required to provide the following information:
- The FMV of the distributed property (other than money).
- The amount of money received in the distribution.
- The net precontribution gain of the partner.

Using the information from the attached statement, complete the worksheet below to figure your recognized gain under section 737.

**Computation of Section 737 Gain**

1. Enter the FMV of the distributed property (other than money) $ _____
2. Enter your adjusted basis in the partnership immediately before the distribution. See Basis Limitations, earlier _____
3. Enter the amount of money received in the distribution _____
4. Subtract line 3 from line 2. If zero or less, enter -0- _____
5. Subtract line 4 from line 1 _____
6. Enter your net precontribution gain _____
7. **Section 737 gain.** Enter the lesser of the amount on line 5 or line 6 _____

The type of gain (section 1231 gain, capital gain) generated is determined by the type of gain you would have recognized if you sold the property rather than contributing it to the partnership. Accordingly, report the amount from line 7, above, on Form 4797 or Form 8949 and the Schedule D of your tax return.

**Code C. Other property.** Code C shows the partnership’s adjusted basis of property other than money immediately before the property was distributed to you. In addition, the partnership should report the adjusted basis and FMV of each property distributed. Decrease the adjusted basis of your interest in the partnership by the amount of your basis in the distributed property. Your basis in the distributed property (other than in liquidation of your interest) is the smaller of:
- The partnership’s adjusted basis immediately before the distribution, or
- The adjusted basis of your partnership interest reduced by any cash distributed in the same transaction.

If you received the property in liquidation of your interest, your basis in the distributed property is equal to the adjusted basis of your partnership interest reduced by any cash distributed in the same transaction.

If you receive cash or property in exchange for any part of a partnership interest, the amount of the distribution attributable to your share of the partnership’s unrealized receivable or inventory items results in ordinary income (see Regulations section 1.751-1(a) and Sale or Exchange of Partnership Interest, earlier).

**Box 20. Other Information**

**Code A. Investment income.** Report this amount on line 4a of Form 4952.

**Code B. Investment expenses.** Report this amount on line 5 of Form 4952.

**Code C. Fuel tax credit information.** The partnership will report the number of gallons of each fuel sold or used during the tax year for a nontaxable use qualifying for the credit for taxed paid on fuels, type of use, and the applicable credit per gallon. Use this information to complete Form 4136, Credit for Federal Tax Paid on Fuels.

**Code D. Qualified rehabilitation expenditures (other than rental real estate).** The partnership will report your share of qualified rehabilitation expenditures and other information you need to complete Form 3468 for property not related to rental real estate activities in box 20 using code D. Your share of qualified rehabilitation expenditures related to rental real estate activities is reported in box 15 using code E. See the Instructions for Form 3468 for details. If the partnership is reporting expenditures from more than one activity, the attached statement will separately identify the expenditures from each activity.

Combine the expenditures (for Form 3468 reporting) from box 15, code E, and box 20, code D. The expenditures related to rental real estate activities (box 15, code E) are reported on Schedule K-1 separately from other qualified rehabilitation expenditures (box 20, code D) because they are subject to different passive activity limitation rules. See the Instructions for Form 8832-CR for details.

**Code E. Basis of energy property.** If the partnership provides an attached statement for code E, use the information on the statement to complete lines 12a-d, 12f, 12g, 12i, 12j, 12k, 12m, 12o, and 12q-v of Form 3468.

**Codes F and G. Recapture of low-income housing credit.** A section 42(d)(5) partnership will report recapture of a low-income housing credit with code F. All other partnerships will report recapture of a low-income housing credit with code G. Keep a separate record of recapture from each of these sources so that you will be able to correctly figure any recapture of low-income housing credit that may result from the disposition of all or part of your partnership interest. For details, see Form 8811.

**Code H. Recapture of investment credit.** The partnership will provide any information you need to figure your recapture tax on Form 4255, Recapture of Investment Credit. See the Form 3468 on which you took the original credit for other information you need to complete Form 4255.

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

**Code I. Recapture of other credits.** On a statement attached to Schedule K-1, the partnership will report any information you need to figure the recapture of the new markets credit (see Form 8874 and Form 8874-B, Notice of Recapture Event for New Markets Credit); Indian employment credit (see section 45A(d)); any credit for employer-provided childcare facilities and services (see Form 8882); alternative motor vehicle credit (see section 30B(h)(8)); alternative fuel vehicle refueling property credit (see section 30C(e)(5)); or the new
qualified plug-in electric drive motor vehicle credit (see section 30D(f)(5)).

**Code J. Look-back interest - completed long-term contracts.** The partnership will report any information you need to figure the interest due or to be refunded under the look-back method of section 460(b)(2) on certain long-term contracts. Use Form 8697, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to report any such interest.

**Code K. Look-back interest - income forecast method.** The partnership will report any information you need 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, and depreciated under the income forecast method. Use Form 8866, Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method, to report any such interest.

**Code L. Dispositions of property with section 179 deductions.** The partnership will report your share of gain or loss on the sale, exchange, or other disposition of property for which a section 179 expense deduction was passed through to partners with code L. If the partnership passed through a section 179 expense deduction for the property, you must report the gain or loss and any recapture of the section 179 expense deduction for the property on your income tax return (see the Instructions for Form 4797 for details). The partnership will provide all the following information:

1. Description of the property.
2. Date the property was acquired and placed in service.
3. Date of the sale or other disposition of the property.
4. Your share of the gross sales price or amount realized.
5. Your share of the cost or other basis plus the expense of sale.
6. Your share of the depreciation allowed or allowable.
7. Your share of the section 179 expense deduction (if any) passed through for the property and the partnership’s tax year(s) in which the amount was passed through. To figure the amount of depreciation allowed or allowable for Form 4797, line 22, add to the amount from item 6, above, the amount of your share of the section 179 expense deduction, reduced by any unused carryover of the deduction for this property. This amount may be different from the amount of section 179 expense you deducted for the property if your interest in the partnership has changed.
8. If the disposition is due to a casualty or theft, a statement providing the information you need to complete Form 4684.
9. If the sale was an installment sale made during the partnership’s tax year, any information you need to complete Form 6252, Installment Sale Income. The partnership will separately report your share of all payments received for the property in future tax years. See the Form 6252 instructions for details.

**Code M. Recapture of section 179 deduction.** The partnership will report your share of any recapture of section 179 expense deduction if business use of any property for which the section 179 expense deduction was passed through to partners dropped to 50% or less. If this occurs, the partnership must provide the following information:

1. Your share of the depreciation allowed or allowable (not including the section 179 expense deduction).
2. Your share of the section 179 expense deduction (if any) passed through for the property and the partnership’s tax year(s) in which the amount was passed through. Reduce this amount by the portion, if any, of your unused (carryover) section 179 expense deduction for this property.

**Code N. Interest expense for corporate partners.** The partnership will report each corporate partner’s share of the partnership’s interest expense. This amount is reported elsewhere on Schedule K-1 and the total amount is reported here for information only. Your share of interest income is reported in box 5 and your share of the partnership’s liabilities is reported in Part II, item K. A corporate partner’s share of interest income, interest expense, and partnership liabilities are treated as income, expense, and liabilities of the corporation for purposes of the limitation on the deduction for interest under section 163(j).

**Code O. Section 453(l)(3) information.** The partnership will report any information you need to figure the interest due under section 453(l)(3) with respect to the disposition of certain timeshares and residential lots on the installment method. If you are an individual, report the interest on Schedule 4 (Form 1040), line 62. Check box c and enter “453(l)(3)” and the amount of the interest in the space to the left of line 62.

**Code P. Section 453A(c) information.** The partnership will report any information you need to figure the interest due under section 453A(c) with respect to certain installment sales. If you are an individual, report the interest on Schedule 4 (Form 1040), line 62. Check box c and enter “453A(c)” and the amount of the interest in the space to the left of line 62. See the Form 6252 instructions for more information. Also see section 453A(c) for details on how to figure the interest.

**Code Q. Section 1260(b) information.** The partnership will report any information you need to figure the interest due under section 1260(b). If the partnership had gain from certain constructive ownership transactions, your tax liability must be increased by the amount charged on any deferral of recognition under section 1260(b). Report the interest on Schedule 4 (Form 1040), line 62. Enter “1260(b)” and the amount of the interest in the space to the left of the line 62. See section 1260(b) for details, including how to figure the interest.

**Code R. Interest allocable to production expenditures.** The partnership will report any information you need relating to interest you are required to capitalize under section 263A for production expenditures. See Regulations sections 1.263A-8 through 1.263A-15 for details.

**Code S. Schedules of section 453A information.** The partnership will report your share of the qualified withdrawals from a capital construction fund (CCF). These withdrawals are taxed separately from your other gross income at the highest marginal ordinary income or capital gains tax rate. Attach a statement to your federal income tax return to show your computation of both the tax and interest for a nonqualified withdrawal. Include the tax and interest on Schedule 4 (Form 1040), line 62. In the space to the left of line 62, enter the amount of tax and interest and “CCF.”

**Code T. Depletion information - oil and gas.** This is your share of gross income from the property, share of production for the tax year, and other information needed to figure your depletion deduction for oil and gas wells. The partnership should also allocate to you a share of the adjusted basis of each partnership oil or gas property. See Pub. 535 for details on how to figure your depletion deduction.

**Code U. Reserved.**

**Code V. Unrelated business taxable income.** The partnership will report any information you need to figure unrelated business taxable income under section 512(a)(1) (but excluding any modifications required by paragraphs (b) through (15) of section 512(b)) for a partner that is a tax-exempt organization.

**TIP** A partner is required to notify the partnership of its tax-exempt status.

**Code W. Precontribution gain (loss).** If the partnership distributed any property with precontribution gain or loss to any partner other than the contributing partner, and the date of the distribution was within 7 years of the date the property was contributed to the partnership, the contributing partner must recognize a gain or loss under section 704(c)(10). If the partnership made such a distribution during its tax year, it will enter code W in box 20 of the contributing partner’s Schedule K-1 and attach a statement providing the amount of the partner’s precontribution gain (loss) and identifying the character of the gain or loss (for example, capital gain (loss) or section 1231 gain (loss)). Report the precontribution gain or loss on Form 8949/Schedule D or Form 4797 in accordance with the information provided by the partnership.

**Code X. Section 108(i) information.** If the partnership made a section 108(i) election or
allocates any section 108(i) items to its partners, it will provide a statement identifying your share of:

- The deferred section 108(i) cancellation of debt (COD) income that has not been included in income in the current or prior tax years,
- The partnership’s original issue discount (OID) deduction deferred under section 108(ii)(2)(A)(i) that has not been deducted in the current or prior tax years,
- The deferred section 752 amount that is treated as a distribution of money under section 752 in the current tax year, and
- The deferred section 752 amount remaining as of the end of the current tax year.

**Code Y. Net investment income.** The partnership may use this code Y to report information you may need to determine your net investment income tax under section 1411, including information regarding income from controlled foreign corporations (CFCs) and passive foreign investment companies (PFICs) the stock of which is owned by the partnership. Any information that isn’t provided elsewhere on Schedule K-1 (or an attachment to Schedule K-1) is provided using code Y. For CFCs and PFICs that you treat as qualified electing funds (QEFs), the information that is relevant to you will depend on whether you, the partnership, or a lower-tier entity has made an election under Regulations section 1.1411-10(g) with respect to the CFC or QEF. For example, if the partnership made an election under Regulations section 1.1411-10(g) for a CFC the stock of which is owned by the partnership, and the relevant income and deduction items derived from that CFC are reported elsewhere on the Schedule K-1, then you will not need the information provided in code Y to complete your Form 8960.

If you are an individual who is a U.S. citizen or resident, or a domestic trust or estate, follow the Instructions for Form 8960 to figure and report your net investment income and adjusted gross income or modified adjusted gross income. Corporate partners are not subject to the net investment income tax. See Regulations sections 1.1411-1 through -10 for details.

**Codes 2 through AD. Qualified business income deduction.** Generally, you are allowed a deduction up to 20% of your net qualified business income plus 20% of qualified REIT dividends and qualified PTP income from your partnership. The partnership will provide the information needed to figure your deduction. Once you have this information, you will use one of two worksheets to help you figure your deduction for qualified business income.

Use Qualified Business Income Deduction-Simplified Worksheet, included in the Instructions for Form 1040, if:

- You have qualified business income, (defined below),
- Your 2018 taxable income does not exceed $157,500 ($315,000 if married filing jointly), and
- You are not a patron in a specified agricultural or horticultural cooperative. Use the worksheet and the instructions in Pub. 535 if you do not meet all three of these requirements.

**Code Z. Section 199A qualified business income.** Use the appropriate worksheet to report your portion of qualified business income.

- Qualified Business Income

  **Deduction-Simplified Worksheet, line 1.** See the Instructions for Form 1040.

  - Pub. 535 Worksheet. If a specified service trade or business, see Schedule A; if you are electing to aggregate this trade or business with another, see Schedule B; if any of your qualified trade or business has generated a net loss, see Schedule C; otherwise enter information on lines 1 and 2.

**Code AA. Section 199A W-2 wages from the trade or business.** Report the portion of Form W-2 wages reported to you by the partnership on the appropriate worksheet.

- Qualified Business Income

  **Deduction-Simplified Worksheet.** This item is not required to be reported. See the Instructions for Form 1040.

  - Pub. 535 Worksheet. If a specified service trade or business, see Schedule A; if you are electing to aggregate this trade or business with another, see Schedule B; otherwise enter on line 4.

**Code AB. Section 199A unadjusted basis on acquisition of qualified property.** Report the portion of unadjusted basis of qualified property reported to you by the partnership on the appropriate worksheet.

- Qualified Business Income

  **Deduction-Simplified Worksheet.** This item is not required to be reported. See the Instructions for Form 1040.

  - Pub. 535 Worksheet. If a specified service trade or business, see Schedule A; if you are electing to aggregate this trade or business with another, see Schedule B; otherwise enter on line 7.

**Code AC. Section 199A REIT dividends.** Report the portion of qualified REIT dividends reported to you by the partnership on the appropriate worksheet.

- Qualified Business Income

  **Deduction-Simplified Worksheet.** Line 6. See the Instructions for Form 1040.


**Code AD. Qualified publicly traded partnership (PTP) income.** Report the portion of qualified PTP income reported to you by the partnership on the appropriate worksheet.

- Qualified Business Income

  **Deduction-Simplified Worksheet.** Line 6. See the Instructions for Form 1040.


**Code AE. Excess taxable income.** If the partnership was required to file Form 8990, Limitation on Business Interest Expense Under Section 163(j), it may determine it has excess taxable income. Report the amount of excess taxable income on Form 8990, Schedule A, line 43(i) if you are required to file Form 8990. See the Instructions for Form 8990 for additional information.

**Code AF. Excess business interest income.** If the partnership is required to file Form 8990, Limitation on Business Interest Expense Under Section 163(j), it may determine it has excess business interest income. Enter the amount of excess business interest income on Form 8990, Schedule A, line 43(g), if you are required to file Form 8990. See the Instructions for Form 8990 for additional information.

**Code AG. Partner’s share of gross receipts.** This code has been added to report each partner’s share of the gross receipts under section 59A(a)(2). If the partner is a foreign person, only gross receipts effectively connected with the conduct of a trade or business within the United States shall be taken into account.

**Code AH. Other information.** The partnership will report the following.

1. Any information a PTP needs to determine whether it meets the 90% qualifying income test of section 7704(c)(2).

**TIP** A partner is required to notify the partnership of its status as a PTP.

2. Any information you need to complete a disclosure statement for reportable transactions in which the partnership participates. If the partnership participates in a transaction that must be disclosed on Form 8886, Reportable Transaction Disclosure Statement, both you and the partnership may be required to file Form 8886 for the transaction. The determination of whether you are required to disclose a transaction of the partnership is based on the category(s) under which the transaction qualifies for disclosure and is determined by you and the partnership. You may have to pay a penalty if you are required to file Form 8886 and do not do so. See the Instructions for Form 8886 for details.

3. Noncash charitable contributions. If the partnership made a noncash charitable contribution, your share of the partnership’s adjusted basis in the property is limited to basis and is reported here.

4. Interest and additional tax on compensation deferred under a section 409A nonqualified deferred compensation plan that doesn’t meet the requirements of section 409A. See section 409A(a)(1)(B) to figure the interest and additional tax on this income. Report this interest and tax on Schedule 4 (Form 1040), line 62. This income is included in the amount in box 4, Guaranteed payments.

5. Inversion gain. The partnership will provide a statement showing the amounts of each type of income or gain that is included in inversion gain. The partnership has included inversion gain in income elsewhere on Schedule K-1. Inversion gain is also reported under code AH because your taxable income and alternative minimum
taxable income cannot be less than the inversion gain. Also, your inversion gain (a) isn’t taken into account in figuring the net operating loss (NOL) for the tax year or the NOL that can be carried over to each tax year, (b) may limit your credits, and (c) is treated as income from sources within the United States for the foreign tax credit. See section 7874 for details.

6. Qualifying advanced coal project property. Use the amounts the partnership provides you to figure the amounts to report on Form 3468, lines 5a through 5c.

7. Qualifying gasification project property. Use the amounts the partnership provides you to figure the amounts to report on Form 3468, lines 6a and 6b.

8. Qualifying advanced energy project property. Use the amount the partnership provides you to figure the amount to report on Form 3468, line 7.

9. The information needed to complete Schedule P (Form 1120-F), List of Foreign Partner Interests in Partnerships. When required, the partnership will make this report on an attached statement to partners that are (a) a corporation (identified as a foreign partner under Regulations section 1.1446-1(c)(3)) or (b) a partnership (domestic or foreign) if the reporting partnership knows, or has reason to know, that one or more of the partners is a foreign corporation. If the partnership allocates effectively connected income to the partner, the statement will contain the information needed to complete lines 1 through 10, 13, 14, 15b, 17a, 17b, and 18 of Schedule P (Form 1120-F). If the partnership doesn’t allocate effectively connected income to the partner, the statement will contain the information needed to complete lines 13, 14, and 18 of Schedule P (Form 1120-F).

10. Conservation reserve program payments. Individuals who received social security retirement or disability benefits, and are partners in farm partnerships that receive conservation reserve program payments, do not pay self-employment tax on their portion of the payments. The partnership will report your portion of the conservation reserve program payments in box 20 using code AH. See Schedule SE (Form 1040) for information on excluding the payment from your calculation of self-employment tax.

11. Acceleration of alternative minimum tax (AMT) credits (corporations only). If a corporate partner has made an election to accelerate the AMT credit in lieu of bonus depreciation, it is required to notify the partnership in writing of this election. See Rev. Proc. 2009-16, 2009-6 I.R.B. 449, and Rev. Proc. 2009-33, 2009-29 I.R.B. 150, for more information about the written notification that the electing corporate partner must provide the partnership. The partnership is required to refigure the electing corporate partner’s share of depreciation on any eligible qualified property or extension property to eliminate bonus depreciation and use the straight line depreciation method for such property. The partnership will attach a statement to Schedule K-1 that lists each partnership item that includes bonus depreciation and shows the electing corporate partner’s adjustment for each item that results from the refigured depreciation and elimination of the bonus depreciation. The partner must adjust the amount shown on Schedule K-1 for these partnership items by the amount of the corresponding adjustment. See section 168(k)(4) for more information.

12. Any information you may need to comply with the limitation on excess business losses of certain taxpayers under section 461. See section 461 and Form 461 and its instructions.

13. Section 250, effective for tax years beginning after 2017, allows a domestic corporation a deduction for the eligible percentage of FDII and GILTI. If applicable, the partnership will provide the necessary information to each domestic corporate partner for its calculation of this deduction.

14. The partnership will provide information for you to determine your effectively connected gain or loss under section 864(c)(8) if you are a nonresident alien or foreign corporate partner that had gain or loss from the sale, exchange, or other disposition of your partnership interest.

15. If the partnership is a section 721(c) partnership, the partnership should include the amounts relating to any remedial items made under the remedial allocation method (described in Regulations section 1.704-3(d) and Temporary Regulations section 1.704-3T(d)(5)(iii)) with respect to section 721(c) property allocable to each partner. The partnership will include a separate code AH for the total remedial income, if any, allocated to the U.S. transferor; total gain recognized due to an acceleration event; or total gain recognized due to a section 367 transfer reflected on Form 8865, Schedule G, Part II, columns (c), (d), and (e), respectively. Only the amount of the total remedial income allocated to the U.S. transferor will be included in Schedule K-1, Part III, Line 1. Any recognized gain due to an acceleration event or Section 367 transfer must be separately reported by the U.S. transferor on its own federal income tax return. For all other partners of the section 721(c) partnership, a separate code AH is used to provide the remedial items allocated to that partner relating to section 721(c) property that was taken into account to determine Part III, line 1. See Temporary Regulations sections 1.721(c)-3T and 1.721(c)-6T.

16. Section 1061 information. The partnership will furnish to the partners any information needed to figure their capital gains with respect to an applicable partnership interest.

17. Partner’s share of the adjusted basis of noncash and capital gain property contributions, and share of the excess of the FMV over the adjusted basis of noncash and capital gain property contributions.

18. Patron reduction and domestic production activities deduction under section 199A(g)(2). If the partnership is a patron of an agricultural or horticultural cooperative, you must figure your patron reduction using Schedule D in Pub. 535. You may also be allowed a domestic production activities deduction, if one is passed through the cooperative, to the partnership, to you. See Pub 535 for more information.

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

The partnership should give you a description and the amount of your share for each of these items.
2018 Partner’s Instructions for Schedule K-1 (565)

References in these instructions are to the Internal Revenue Code (IRC) as of January 1, 2015, and to the California Revenue and Taxation Code (R&TC).

What’s New

Federal Tax Reform - The Tax Cuts and Jobs Act (TCJA) signed into law on December 22, 2017, made changes to the Internal Revenue Code (IRC). In general, California Revenue and Taxation Code (R&TC) does not conform to the changes. California taxpayers continue to follow the IRC as of the specified date of January 1, 2015, with modifications.

New deduction for pass-through income - For tax years beginning after December 31, 2017, and before January 1, 2026, the TCJA adds IRC Sec. 199A, “Qualified Business Income,” under which a non-corporate taxpayer, including a trust or estate, who has qualified business income (QBI) from a partnership, S corporation, or sole proprietorship is allowed a deduction. California does not conform to the deduction for qualified business income of pass-through entities under IRC Section 199A.

General Information

In general, for taxable years beginning on or after January 1, 2015, California law conforms to the IRC as of January 1, 2015. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information, go to ftb.ca.gov and search for conformity. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

The instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the R&TC in the instructions. Taxpayers should not consider the instructions as authoritative law.

California follows the revised federal instructions (with some exceptions) for reporting the sale, exchange or disposition of an asset for which an IRC Section 179 expense was claimed in a prior year by a partnership, limited liability company (LLC) or S corporation.

Partners should follow federal reporting requirements as detailed in federal Form 1065, U.S. Return of Partnership Income, and federal Form 4797, Sales of Business Property.

Single-Sales Factor Formula - R&TC Section 25128.7 requires all business income of an apportioning trade or business, other than an apportioning trade or business under R&TC Section 25128(b), to apportion its business income to California using the single-sales factor formula. For more information, get Schedule R, Apportionment and Allocation of Income, or go to ftb.ca.gov and search for single sales factor.

Market Assignment - R&TC Section 25136 requires all taxpayers to assign sales, other than sales of tangible personal property, using market assignment. For more information, get Schedule R, or go to ftb.ca.gov and search for market assignment.

A Purpose

The partnership uses Schedule K-1 (565), Partner’s Share of Income, Deductions, Credits, etc., to report your distributive share of the partnership’s income, deductions, credits, etc. Keep the Schedule K-1 (565) for your records. Information from the Schedule K-1 (565) should be used to complete your California tax return. However, do not file the schedule with your California tax return. The partnership has filed a copy with the FTB.

As a partner of the partnership, you are subject to tax on your distributive share of the partnership income, whether or not distributed.

The amount of loss and deduction you are allowed to claim on your California tax return may be less than the amount reported on Schedule K-1 (565). Generally, the amount of loss and deduction you are allowed to claim is limited to your basis in the partnership and the amount for which you are considered at-risk. If you have losses, deductions, or credits from a passive activity, you must also apply the passive activity loss and credit rules. It is the partner’s responsibility to consider and apply any applicable limitations. See Instructions, Limitations.

You should also read the federal Schedule K-1 (1065), Partner’s Instructions for Schedule K-1 (Form 1065), before completing your California tax return with this Schedule K-1 (565) information.

For more information on the treatment of partnership income, deductions, credits, etc., get the following federal publications:

- Publication 541, Partnerships
- Publication 535, Business Expenses

Any information returns required for federal purposes under IRC Sections 6038, 6038A, 6038B, and 6038D are also required for California purposes. Attach the information returns to your California tax return when filed. If the information returns are not provided, penalties may be imposed under R&TC Sections 19141.2 and 19141.5.

B Definitions

General Partner
An individual or entity owning an interest in a partnership who is personally liable for partnership debts and who is authorized to act on behalf of the partnership.

Limited Partner
An individual or entity owning an interest in a partnership whose potential personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership.

Nonrecourse Loans
Liabilities of the partnership for which none of the partners have assumed any personal liability.

Qualified Nonrecourse Financing
Any financing for which no one is personally liable for repayment that is borrowed for use in an activity of holding real property and that is loaned or guaranteed by a federal, state, or local government, or borrowed from a “qualified person.”

California Business Situs
The place at which intangible personal property is employed as capital in California or the possession and control of the property is localized in connection with a business in California so that its substantial use and value attach to and become an asset of the business in California.

Apportionment
The process by which business income from a trade or business is conducted in two or more states (an apportioning trade or business) is divided between taxing jurisdictions. Get Schedule R for more information.

Unitary
A method of taxation by which all of the activities comprising a single trade or business are viewed as a single unit, regardless of whether those activities are conducted by divisions of a single entity or by commonly owned or controlled entities. For more information about unitary business principles, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

Election
The choice of a particular accounting method for tax reporting purposes. Generally, the partnership decides how to compute taxable income from...
its operations. For example, it chooses the accounting method and depreciation methods it will use.

However, certain elections are made separately on your California tax return and not by the partnership. These elections are made under the following IRC Sections, to which the R&TC conforms:
- IRC Section 108(b)(5) (income from discharge of indebtedness)
- IRC Section 617 (deduction and recapture of certain mining exploration expenditures, paid or incurred)

Additional Definitions
For definitions of a partnership, general partnership, limited partnership, limited liability partnership, etc., see the instructions for Form 565, Partnership Return of Income, or the instructions for federal Form 1065.

C Reporting Information from Columns (d) and (e)
If the partnership derives income from activities conducted both within and outside California, the partnership is an apportioning partnership. All partnerships (apportioning and nonapportioning) should complete columns (c) and (d). Apportioning partnerships must also complete column (e). The apportioning partnership will determine which items of income constitute business or nonbusiness income and will use Schedule R to determine the partnership income from California sources. The partnership’s business income apportioned to California are entered in column (e). Partnership nonbusiness income from real and tangible property will also be entered in column (e). Nonbusiness intangibles are sourced or allocated at the partner level and must be entered on Table 1 instead. For more information see General Information D, Nonbusiness Income, and General Information E, Unitary Partners. Resident partners will use only the information in column (c) and column (d) to report their share of the partnership’s income or loss.

Nonresident, corporate, and other entity partners must report their distributive share of income, loss or credits apportioned or allocated to California as indicated on Schedule K-1 (565), column (e). Special rules apply if a partner and the partnership engage in a unitary business. See Cal. CodeRegs., tit. 18 sections 17951-4 and 25137-1 for more information. Also see General Information E, Unitary Partners.

Residents, part-year residents, and some nonresidents may qualify for a credit for taxes paid to other states on income that is apportioned or allocated to a state other than California. For more information, get California Schedule S, Other State Tax Credit. Nonapportioning partnerships do not need to fill out column (e) on Schedule K-1 (565) if the partner is a resident and the ‘Yes’ box is checked on Question I. However, the final determination of residency is made at the partner level. If the partnership is uncertain as to the residency status of the partner, it should fill out column (e) for that partner.

Inconsistent Treatment of Items
Generally, partners must report tax items shown on their Schedule K-1s and any attached schedules, the same way the partnership treated the items on its tax return. If the treatment on a partner’s original or amended tax return is inconsistent with the partnership’s treatment, or if the partnership has not filed a tax return, the partner must attach a statement with its original or amended tax return to identify and explain any inconsistency or to note that a partnership tax return has not been filed. If a partner is required to attach this statement but fails to do so, the partner may be subject to an accuracy related penalty.

D Nonbusiness Income
The determination of whether partnership income is business income or nonbusiness income is made at the partnership level. Nonbusiness income from real or tangible personal property located in California, such as rents, royalties, gains, or losses is California source income (Cal. Code Regs., tit. 18 section 17951-3 and R&TC Sections 23040, 25124 and 25125). This information should be included on the appropriate line of column (e), as well as in Table 2, Part B, if the partnership believes it is unitary with the partner or if the partnership is uncertain whether it is unitary with the partner. Non-unitary partners should ignore the information in Table 2 and use column (e).

If the partnership has income from nonbusiness intangibles, the source of that nonbusiness intangible income will be determined at the partner level. In most cases, income from nonbusiness intangible property is sourced at the residence or commercial domicile of the partner. If the partner is an individual, estate, or trust, income from nonbusiness intangibles will have a California source if the intangible has acquired a California business situs. For example, a nonresident pledges stocks, bonds, or other intangible personal property in California. This pledge is security for the payment of debt, taxes, or other liabilities incurred for a business in the state. The pledged property will acquire a business situs in California. Another example is a nonresident who maintains an office and bank account in California for the business activities in this state. The bank account will acquire a business situs in California. See Cal. Code Regs., tit. 18 section 17951-2 and R&TC Section 17952. If the intangible income is determined to have a business situs by the partnership, the intangible income will be included in column (e).

If the partner is a corporation or another business entity, Cal. Code Regs., tit. 18 sections 17951-4 and 25137-1 require that nonbusiness income from intangibles be allocated in accordance with the rules of R&TC Sections 25125 to 25127.

Because the source of intangible nonbusiness income is dependent upon the status of the individual, estate or trust, income will be entered in column (e) and is entered only in Table 1. The partner must determine the source of such income by applying the rules described above.

E Unitary Partners
The following rules apply to corporations, individuals and other entities that conduct a trade or business that is unitary with the partnership’s trade or business (see Cal. Code Regs., tit. 18 section 17951-4, incorporating the provisions of R&TC Section 25137 and regulations thereunder).

Unitary partners cannot use the California source information reflected in column (e). Such partners must use the information in Table 1 and Table 2 as described in the following instructions, and in the Line Instructions.

The partner’s distributive share of partnership items is determined by applying the partnership rules in R&TC Sections 17851 through 17858. The determination of the portion of the distributive share of business and nonbusiness income that has its source in California or, that is includible in the partner’s business income subject to apportionment is made in accordance with Cal. Code Regs., tit. 18 section 25137-1 if the partner, or the partnership, or both, have income from sources within and outside this state. The partner, in computing net income for its tax accounting period, must include its distributive share of partnership items referred to in this section for any partnership taxable year ending within or with the partner’s tax accounting period.

D Distributive Items of Business Income

Apportionment of Business Income - Unitary Business
If the partnership’s activities and the partner’s activities constitute a unitary business under established standards (other than ownership requirements), the combined business income of this single trade or business apportioned to California is determined by combining the partner’s distributive share of the partnership’s apportionment factors with the factors of the partner for any partnership year ending within the partner’s tax accounting period. Combined business income is then apportioned by the sales factor. Use of a 3-factor formula depends upon whether combined gross business receipts (partner’s share of the partnership’s gross business receipts plus the partner’s own gross business receipts) are more than 50% from agricultural, extractive, banking, or savings and loans and other financial business activities. For more information, get Schedule R.

If you are a partner that is unitary with the partnership, use Table 2 to compute your factors, applying the rules shown below (see Cal. Code Regs., tit. 18 sections 25129 to 25137 for examples). Partners that are unitary with the partnership should perform the following steps:
1. Combine your distributive share of the partnership’s business income with your own business income to determine total business income.

2. If using the single-sales factor formula, compute the sales factor by combining your share of the partnership’s sales factor from Table 2, Part C, with your own sales factor as explained in these instructions. If using the 3-factor formula, compute property, payroll, and sales factors by combining your share of the partnership’s factors from Table 2, Part C, with your own factors as explained in these instructions.

3. Apply the apportionment factor determined in Step 2 to the total business income determined in Step 1 to arrive at business income apportioned to this state.

Unitary Partner’s Computation of the Sales Factor
Compute the numerator and denominator of the sales factor in accordance with Cal. Code Regs., tit. 18 sections 25134 to 25136. Apply the following special rules:

A. Include in the denominator of the sales factor your distributive share of the partnership’s sales that give rise to business income. See Table 2, Part C.

B. Include in the numerator of your sales factor the amount of such sales described in part A (above) attributable to California.

C. Eliminate intercompany sales as one of the following:
   ● Sales by the partner to the partnership to the extent of the partner’s interest in the partnership.
   ● Sales by the partnership to the partner not to exceed the partner’s interest in all partnership sales. See Cal. Code Regs., tit. 18 section 25137-1(f)(3).

Unitary Partner’s Computation of Property Factor
Use Schedule R to compute the numerator and denominator of the property factor. Adjust factors in accordance with Cal. Code Regs., tit. 18 sections 25129, 25130, and 25131. Also apply the following special rules:

A. Include in the denominator of your property factor your distributive share of such property that is described in part A (above) that is located in California. See Table 2, Part C.

B. Include in the numerator of your property factor the value of any such property described in part A (above) that is applicable to California. See Table 2, Part C.

C. See Cal. Code Regs., tit. 18 section 25137 -1(f)(1)(B) for examples of how to avoid duplication of the value of property that is rented by the partner to the partnership or vice versa.

Unitary Partner’s Computation of Payroll Factor
Use Schedule R to compute the numerator and the denominator of the payroll factor in accordance with Cal. Code Regs., tit. 18 sections 25132 and 25133. Apply the following special rules:

A. Include in the denominator of your payroll factor your distributive share of the partnership’s payroll used to produce business income. See Table 2, Part C.

B. Include in the numerator any such payroll described in part A (above) that is applicable to California. See Table 2, Part C.

Apportionment of Business Income - Nonunitary Business
If the apportioning trade or business conducted by a partner is not unitary with the apportioning trade or business of the partnership, the partnership apportions its business income separately, using Schedules R, R-1, R-2, R-3, and R-4 only. The different items of business income as apportioned to CA are entered in column (e).

Distributive Items of Nonbusiness Income for a Unitary Partner
Income in Table 2, Part B, is from a California source under R&TC Sections 25124 and 25125. Unitary partners must make certain to separately include such items from Tables 1 and 2 as California source income. Unitary partners shall use Tables 1 and 2 to report nonbusiness income instead of Schedule K-1 (565), column (e).

Instructions

Questions and Items
The partnership completes the questions and items on the Schedule K-1 (565) for all partners. For more information, see the instructions for federal Schedule K-1 (1065).

Schedule K-1 (565)

Important Note to Partners: If your Schedule K-1 (565) reports losses and/or deductions, you must first apply the basis, at-risk, and the passive activity loss limitations before such losses/deductions can be deducted on your California return. See Instructions, Loss Limitations. Also, see IRC Section 705(a) for information on how to compute basis.

If your return is ever examined, you may be required to provide your computations and the supporting documents for your partnership interest.

If you are an individual partner, the amounts in column (c), California adjustments, and column (d), Total amounts using California law, that are from nonpassive activities must be reported on the appropriate California form or schedule; such as, Schedule D (540), California Capital Gain or Loss Adjustment, Schedule D-1, Sales of Business Property, Schedule CA (540), California Adjustments - Residents, or Schedule CA (540NR), California Adjustments - Nonresidents or Part-Year Residents.

Amounts in column (e), California source amounts and credits, that are from passive activities must be reported on form FTB 3801, Passive Activity Loss Limitations, form FTB 3801-CR, Passive Activity Credit Limitations, or form FTB 3802, Corporate Passive Activity Loss and Credit Limitations. Use the related worksheets to figure any passive loss limitations. If the partnership knows that you are a California resident it may leave column (e) blank. California residents are subject to tax on their entire taxable income shown in column (d) (R&TC Section 17041).

If you are not an individual partner, report the amounts as instructed on your California return.

If you have losses, deductions, credits, etc., from a prior year that were not deductible or usable because of certain limitations, they may be taken into account in determining your net income, loss, etc., for this year. However, do not combine the prior-year amounts with any amounts shown on this Schedule K-1 (565) to get a net figure. Instead, report the amounts on an attached schedule, statement, or form on a year-by-year basis. See the instructions for federal Schedule K-1 (1065) for more information.

Loss Limitations
The amounts shown on line 1 through line 3 of your Schedule K-1 (565) reflect your distributive share of income or loss from the partnership’s business or rental operations. If you have losses from the partnership, you should be aware that there are three potential limitations imposed on losses before you may deduct losses on your tax return. These limitations and the order in which they must be applied are:

● Basis limitations (IRC Section 704)
● At-risk limitations (IRC Section 465)
● Passive activity loss and credit limitations (IRC Section 469)

Each of these limitations is discussed separately in the following instructions.

Other limitations may apply to specific deductions such as the investment interest expense deduction. These limitations on specific deductions generally apply before the basis, at-risk, and passive loss limitations.

Basis Rules
Generally, California tax law conforms to federal tax law concerning basis limitations. You may not claim your share of a partnership loss (including a capital loss) that is greater than the adjusted basis of your partnership interest at the end of the partnership’s taxable year.
The partnership is not responsible for keeping the information needed to compute the basis of your partnership interest. Although the partnership does provide you with an analysis of the changes to your capital account on your Schedule K-1 (565), Item J, that information is based on the partnership's books and records and should not be used to compute your basis.

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

Items that increase your basis may include the following:

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

Items that decrease your basis, but not below zero, may include the following:

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

This is not a complete list of items and factors that determine basis. Get federal Publication 541 for a complete discussion of how to determine the basis of your partnership interest.

**At-Risk Rules**

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

If you have:
1. A loss or other deduction from an activity carried on as a trade or business or for the production of income by the partnership; and
2. Amounts in the activity for which you are not at-risk, you will have to complete federal Form 6198, At-Risk Limitations, to figure the allowable loss to report on your return. Complete federal Form 6198 using California amounts.

See the instructions for federal Schedule K-1 (1065), At-Risk Limitations, and federal Publication 925, Passive Activity and At-Risk Rules, for more information.

**Passive Activity Loss and Credit Rules**

IRC Section 469 limits the deduction of certain losses and credits, California law generally conforms to this federal provision. These rules apply to partners who have a passive activity loss or credit for the taxable year.

For California purposes, passive loss limitations apply to individuals, estates, trusts (other than grantor trusts), closely held corporations, and S corporations.

Even though the passive loss rules do not apply to grantor trusts, partnerships, and LLCs, they do apply to the owners of these entities.

A passive activity is generally a trade or business activity in which the partner does not materially participate or a rental real estate activity in which the partner does not actively participate. A partnership may have more than one activity. Each partner must apply the passive activity loss and credit limitations on an activity-by-activity basis.

Individuals, estates, trusts, and S corporations must complete Form FTB 3801 to calculate the allowable passive losses, and Form FTB 3801-CR to calculate the allowable passive credits. Corporations must complete Form FTB 3802.

The amounts reported on Schedule K-1 (565), line 1 and line 15f are normally passive activity income (loss) or credits from the trade or business of the partnership if you are a limited partner, or if you are a general partner who did not materially participate in the trade or business activities of the partnership. The amounts reported on Schedule K-1 (565), line 2, line 3, line 15b, line 15c, and line 15d are from rental activities of the partnership and are passive activity income (loss) or credits to all partners. There is an exception to this rule for losses incurred by qualified investors in qualified low-income housing projects. The partnership will identify any of these qualified amounts on an attachment for line 2.

The passive loss rules apply separately to the items attributable to each publicly traded partnership (PTP) that is not treated as a corporation under IRC Section 7704. Thus, partners who do not materially participate in the operations of a PTP are allowed to deduct their share of the PTP's losses only to the extent of passive income from the same PTP or when the entire interest is sold (IRC Section 469(k)). See the instructions for Form FTB 3801 and form FTB 3802 for the rules to calculate and report income, gains, and losses from passive activities that you held through each PTP you owned during the taxable year.

See the instructions for federal Schedule K-1 (1065), Passive Activity Limitations, and federal Publication 925 for more information.

**Investment Partnership Income**

If you are a nonresident individual, the amounts in column (e) will generally not be taxable by California (R&T Section 17955). However, nonresident individuals will be taxed on their distributive share of California source income from an investment partnership if the income from the qualifying investment securities is interrelated with either of the following:

- Any other business activity of the nonresident partner.
- Any other entity in which the nonresident partner owns an interest that is separate and distinct from the investment activity of the partnership and that is conducted in California.

If you are a corporate partner, the amounts in column (e) will also generally not be taxable in California provided the income from the partnership is the corporation's only California source income. However, if the corporation does either of the following:

- Participates in the management of the investment activities of the partnership or is engaged in a unitary business with another corporation or partnership that participates in the investment activities of the partnership.
- Has income attributable to sources within California other than income from the investment partnership.

Then the corporation will be taxable on its distributive share of California source income of the partnership. See R&T Section 23040.1 for more information.

**Line Instructions**

Enter the difference between federal and California amounts from column (c) on Schedule CA (540), if you are a resident; or on Schedule CA (540NR), if you are a nonresident or part-year resident. Also, if you are a nonresident or part-year resident, enter California source amounts from the Schedule K-1 (565), column (e), on your Schedule CA (540NR), column E.

G(1) - If this box is checked, the partnership is a PTP as defined in IRC Section 469(k)(2). Follow the instructions for form FTB 3801 or form FTB 3802 for reporting income, gains, and losses from PTPs.

G(2) - If this box is checked, the partnership is an investment partnership as defined in R&T Sections 17955 and 23040.1. If you are a nonresident individual, the amounts in column (e) will generally not be taxable in California.

Nonresident and Part-Year Resident Partners, get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency. Part-year resident partners must consider their period of residency and nonresidency in the computation of total California income. The line instructions below that instruct you to enter information from Schedule K-1 (565), column (d), on other forms, apply to resident partners. When the instructions make reference to column (d), nonresident members should take information from columns (c), (d), and (e) and apply the information to the appropriate line relating to computation of total income and income from California sources.
Income (Loss)

Line 1 - Ordinary Income (Loss) from Trade or Business Activities

The amount reported on line 1, column (d), is your share of the ordinary income (loss) from the trade or business activities of the partnership. For individual partners, where this amount is reported depends on whether or not this amount is a passive activity to you.

If, in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the income on form FTB 3801 or form FTB 3802. If a loss is reported on line 1, column (d), report the loss on the applicable line of form FTB 3801 or form FTB 3802 to determine how much of the loss is allowable.

If the partnership has income from activities both within and outside California, the amount nonresidents or corporate partners must report on their California returns is a function of the partnership’s apportionment percentage and allocation of income. Reporting instructions are included in the information provided by the partnership. See Cal. Code Regs., tit. 18 sections 17351-4 and 25137-1 for more information. In addition, see General Information E, Unitary Partners.

Line 2 - Net Income (Loss) from Rental Real Estate Activities

Generally, the income (loss) reported on line 2, column (d), is a passive activity amount to all partners. However, the loss limitations of IRC Section 469 do not apply to qualified investors in qualified low-income housing projects. If applicable, the partnership will attach a schedule for line 2 to identify such amounts. If you have an amount on Schedule K-1 (565), line 2, column (c), report the California adjustment on Schedule CA (540), Part I, line 17, or on Schedule CA (540NP), Part II, line 17, column B or column C, whichever is applicable.

Use the following instructions to determine where to enter the line 2 amount.

- If you have a loss on line 2, column (d) (other than a qualified low-income housing project loss), enter the loss on the applicable line of form FTB 3801 or form FTB 3802 to determine how much of the loss is allowable. Your share of the loss may be eligible for the special $25,000 allowance for rental real estate losses. Get the instructions for form FTB 3801 or form FTB 3802 for more information.

See the federal Schedule K-1 (1065) Specific Instructions for box 2, item 1, and item 2 for more information.

Report any California adjustment amount from column (c) on Schedule CA (540 or 540NR) if you are a qualified investor reporting a qualified low-income housing project loss.

- If you have only income on line 2, column (d), and no other passive losses, enter any California adjustment amount from column (c) on Schedule CA (540 or 540NR). However, if in addition to this passive activity income you have a passive activity loss from this partnership or from any other source, report the line 2, column (d), income on the applicable line of form FTB 3801 or form FTB 3802.

Line 3 - Net Income (Loss) from Other Rental Activities

The amount on line 3, column (d) is a passive activity amount for all partners.

- If line 3, column (d) is a loss, report the loss on the applicable line of form FTB 3801 or form FTB 3802.
- If only income is reported on line 3, column (d), and you have no other passive losses, report the California adjustment from column (c) on Schedule CA (540 or 540NR). However, if in addition to this passive activity income you have a passive activity loss from this partnership or from any other source, report the line 3 income on the applicable line of form FTB 3801 or form FTB 3802.

Line 4 - Guaranteed Payments to Partners

Amounts on this line are not normally part of a passive activity. If there is an amount on Schedule K-1 (565), line 4, column (c), enter this amount on Schedule CA (540), Part I, line 21f, or on Schedule CA (540NR), Part II, line 21f, column B or column C, whichever is applicable. If this is a passive activity for the partner, then the partner must also complete the passive activity form. Use federal Form 8582.

Passive Activity Loss Limitations, for federal purposes and form FTB 3801 for California purposes.

Line 5 through Line 11a - Portfolio Income

Portfolio income (loss), referred to as "portfolio income (loss) in these instructions, is generally not subject to the passive activity limitation rules of IRC Section 469. Portfolio income includes interest, dividend, royalty income and gain or loss on the sale of property held for investment. Generally, amounts reported on line 8, line 9, and line 11a are gains or losses attributable to the disposition of property held for investment and are, therefore, classified as portfolio income (loss). However, if an amount reported on line 8, line 9, or line 11a, column (d), is a passive activity amount, the partnership should identify the amount.

Line 5 - Interest Income

If you have an amount on Schedule K-1 (565), line 5, column (c), report this amount on Schedule CA (540), Part I, line 2, or on Schedule CA (540NR), Part II, line 2, column B or Column C, whichever is applicable.

Line 6 - Dividends

If you have an amount on Schedule K-1 (565), line 6, column (c), report this amount on Schedule CA (540), Part I, line 3, or on Schedule CA (540NR), Part II, line 3, column B or column C, whichever is applicable.

Line 7 - Royalties

If you have an amount on Schedule K-1 (565), line 7, column (c), report this amount on Schedule CA (540), Part I, line 17, or on Schedule CA (540NR), Part II, line 17, column B or column C, whichever is applicable.

Line 8 and Line 9 - Net Short-term and Net Long-term Capital Gain (Loss)

If you have an amount on Schedule K-1 (565), line 8 or line 9, column (d), report this amount on the Schedule D (540 or 540NR), line 2.

Line 10a and Line 10b - Total Gain and Total Loss under IRC Section 1231 (Other Than Due to Casualty or Theft)

If the amounts on line 10a and line 10b relate to rental activity, the IRC Section 1231 gain (loss) is a passive activity amount. If the amounts on line 10a and line 10b relate to a trade or business activity and you are a limited partner, the IRC Section 1231 gain (loss) is a passive activity amount.

- If the amount is not a passive activity amount report it on Schedule D-1, line 2, column (g).
- If a gain is reported on line 10a, column (d), and it is a passive activity amount report the gain on Schedule D-1, line 2, column (g).
- If a loss is reported on line 10b, column (d), and it is a passive activity amount, get form FTB 3801 to determine if your loss is limited.

Line 11a - Other Portfolio Income (Loss)

The partnership uses line 11a, column (d), to report portfolio income other than interest, dividend, royalty, and capital gain (loss) income. The partnership should attach a schedule to Schedule K-1 (565) to tell you what kind of portfolio income is reported on line 11a, column (d). An example of portfolio income that could be reported on line 11a, column (d), is from a real estate mortgage investment conduit (REMIC) in which the partnership is a residual interest holder.

If the partnership has a residual interest in a REMIC, it will report your share of REMIC taxable income (net loss) on the schedule. Report the adjustment amount from column (c) on Schedule CA (540 or 540NR). The partnership will also report your share of ‘‘excess inclusion’’ and your share of IRC Section 212 expenses. For taxable years beginning after December 31, 2017, and before January 1, 2026, the federal deduction for miscellaneous itemized deductions subject to the 2% floor is suspended. California does not conform. You may deduct these IRC Section 212 expenses as a miscellaneous deduction for California purposes.

Line 11b and Line 11c - Total Other Income and Total Other Loss

Amounts reported on these lines are other items of income (loss) not included on line 1 through line 11a. The partnership should give you a description for each of these items.
Use the instructions below to:
- Report income or gain (not losses) from passive activities.
- Report income, gain, or losses from all other passive activities.
If you have losses from passive activities, or a combination of income, gains, and losses from passive activities, you must first complete form FTB 3801 or form FTB 3802 to determine if any of your losses are limited by the passive loss rules. Use the instructions below to report passive income and losses after the passive loss limitations have been computed.

Line 11b and line 11c items may include:
- Partnership gains from disposition of farm recapture property (get Schedule D-1) and other items to which IRC Section 1252 applies.
- Recoveries of bad debts, prior taxes, and delinquency amounts (IRC Section 111). Report the amounts from line 11b and line 11c, column (c), on Schedule CA (540), Part I, line 21f, or on Schedule CA (540NR), Part II, line 21f, column B or column C, whichever is applicable.
- Gains and losses from wagering, IRC Section 165(d). Report the amounts from line 11b and line 11c, column (c), on Schedule CA (540), Part I, line 21f, or on Schedule CA (540NR), Part II, line 21f, column B or column C, whichever is applicable.
- Any income, gain, or loss to the partnership under IRC Section 751. Report this amount on Schedule D-1, line 10.
- Specially allocated ordinary gain or loss. Report this amount on Schedule D-1, line 10.
- Net gains or losses from involuntary conversions due to casualty or theft. The partnership will give you a schedule that shows the California amounts to be entered on federal Form 4684, Casualties and Thefts, Section B, Part II, line 34, column (b)(i), column (b)(ii), and column (c).

**Deductions**

**Line 12 - Expense Deduction for Recovery Property**
For California the maximum amount of expense deduction for recovery property (IRC Section 179 deduction) that you can claim for all sources is $25,000. The $25,000 limit is reduced if the total cost of IRC Section 179 property placed in service during the year exceeds $200,000.

California does not conform to the federal limitation amounts.

The partnership will provide information on your share of the IRC Section 179 deduction and of the cost of the partnership’s IRC Section 179 property so that you can compute this limitation. Your IRC Section 179 deduction is also limited to your taxable income from all of your trades or businesses. Get form FTB 3885A, Depreciation and Amortization Adjustments, and get federal Publication 534, Depreciating Property Placed In Service Before 1987, and federal Publication 946, How To Depreciate Property, for more information.

If the IRC Section 179 deduction is a passive activity amount, report it on the applicable line of form FTB 3801. If it is not a passive activity amount and there is an amount on Schedule K-1 (565), line 12, column (c), enter this amount on Schedule CA (540), Part I, line 21f, or on Schedule CA (540NR), Part II, line 21f, column B or column C, whichever is applicable.

**Line 13a - Charitable Contributions**

The partnership will provide a schedule that shows which contributions were subject to the 50%, 30%, and 20% limitations. See the instructions for federal Form 1040, U.S. Individual Income Tax Return, and federal Publication 526, Charitable Contributions, for more information.

For taxable years beginning after December 31, 2017, and before January 1, 2026, the 50% limitation under IRC Section 170(b) for cash contributions to public charities and certain private foundations is increased to 60% for federal purposes. California does not conform. The limitation for California is 50%.

California has not conformed to any of the provisions of the Katrina Emergency Disaster Relief Act of 2005.

If there is an amount on Schedule K-1 (565), line 13a, column (c), enter this amount on Schedule CA (540), Part II, line 11 and/or line 12 or on Schedule CA (540NR), Part III, line 11 and/or line 12.

**Line 13b - Investment Interest Expense**

If the partnership paid or accrued interest debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited. For more information and the special provisions that apply to investment interest expense, get form FTB 3526, Investment Interest Expense Deduction, and federal Publication 550, Investment Income and Expenses.

Enter the amount from column (d) on form FTB 3526 along with your investment interest expense from any other sources. Form FTB 3526 will help you determine how much of your total investment interest is deductible.

**Line 13c - IRC Section 59(e) Expenditures**

If you have an amount on Schedule K-1 (565), line 13c, see the instructions for the federal Schedule K-1 (1065), box 13. The partnership should give you a description and the amount of your share for each item applicable to this category.

**Line 13d - Deductions Related to Portfolio Income**

Amounts entered on this line are the deductions that are clearly and directly allocable to portfolio income (other than investment interest expense and expenses from a REMIC). If you have an amount on Schedule K-1 (565), line 13d, column (c), enter this amount on Schedule CA (540), Part II, line 21, or on Schedule CA (540NR), Part III, line 21. If any of the line 13d amount should not be reported on Schedule CA (540 or 540NR), the partnership should identify these amounts.

**Line 13e - Other Deductions**

Amounts on this line are deductions not included on lines 12, 13a through 13d. If there is an amount on Schedule K-1 (565), line 13e, column (c), enter this amount on the applicable line of Schedule CA (540 or 540NR).

See the instructions for federal Schedule K-1 (1065), box 13, for examples of other deductions. Also, get FTB Pub. 1001 for differences between federal and California tax law for certain deductions.

**Line 14**

The information reported in box 14 of the federal Schedule K-1 (1065), does not apply to California and therefore there is no line 14.

**Credits**

If you have credits that are passive activity credits, complete form FTB 3801-CR (use form FTB 3802 for corporations) in addition to the credit forms referenced. Get the instructions for form FTB 3801-CR (or form FTB 3802) for more information.

**Line 15a - Total Withholding**

Total withholding is the sum of your distributive share of taxes withheld from payments to the partnership by another entity (allocated to all partners according to their respective partnership interests) plus taxes withheld on you by the partnership, or back up withholding on you as a domestic or foreign nonresident partner. If there is a withholding credit allocated to you or taxes were withheld on you by the partnership, the partnership must provide a completed Form 592-B, Resident and Nonresident Withholding Tax Statement. Attach Form 592-B to the front of your California tax return to claim the amount withheld. Schedule K-1 (565) may not be used to claim the withholding credit. If the partnership is not on a calendar year, the amount on line 15a may not match the amount on Form 592-B because of the difference in accounting periods. Claim the amount shown on Form 592-B on one of the following:

- Form 540, California Resident Income Tax Return, line 73.
- Form 540NR, California Nonresident or Part-year Resident Income Tax Return (Long), line 83.
- Form 541, California Fiduciary Income Tax Return, line 31.
- Form 109, California Exempt Organization Business Income Tax Return, line 17.
The farmworker housing credit has been consolidated into the low-income housing tax credit. For more information, get form FTB 3521, Low-Income Housing Credit.

Any allowable credit is entered on form FTB 3521. The passive activity credit limitations of IRC Section 469, however, may limit the amount of credit. Credits from passive activities are generally limited to tax attributable to passive activities.

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

Line 15c - Other Credits Related to Rental Real Estate Activities
The information you need to compute credits related to rental real estate activities other than the low-income housing credit is provided on this line with an attached schedule. These credits may be limited due to passive activity limitation rules.

Line 15d - Credits Related to Other Rental Activities
Any information you need to compute credits related to rental activities other than rental real estate activities is provided on this line. These credits may be limited due to passive activity limitation rules.

Line 15e - Nonconsenting Nonresident Member’s Tax Paid by LLC on Behalf of Your Partnership.
This line shows any income tax paid on your partnership’s behalf by an LLC if the general partner in the partnership did not sign form FTB 3832, Limited Liability Company Nonresident Members’ Consent, consenting to California’s jurisdiction to tax the partnership’s distributive share of the LLC income attributable to California sources.

You must attach a copy of the Schedule K-1 (565), Member’s Share of Income, Deductions, Credits, etc., previously issued to your partnership by the LLC and the Schedule K-1 (565) issued to you by your partnership.

Line 15f - Other Credits
This line is used to report information you need to compute pass-through credits and other items that are not includable on line 15a through line 15d but are related to the trade or business activity. The partnership should provide a schedule and/or statement explaining any items.

Credits that may be reported on line 15f (depending on the type of activity they relate to) include:

- California Competes Tax Credit. Get form FTB 3531.
- College Access Tax Credit. Get form FTB 3592.
- Disabled Access Credit for Eligible Small Businesses. Get form FTB 3548.
- Donated Agricultural Products Transportation Credit. Get form FTB 3547.
- Enhanced Oil Recovery Credit. Get form FTB 3546.
- Enterprise Zone (EZ) Hiring Credit. Get form FTB 3805Z.
- Local Agency Military Base Recovery Area (LAMBRA) Hiring Credit. Get form FTB 38007.
- Natural Heritage Preservation Credit. Get form FTB 3503.
- New Advanced Strategic Aircraft Credit. Use credit code 236.
- New California Motion Picture and Television Production Credit. Get form FTB 3541.
- New Donated Fresh Fruits or Vegetables Credit. Get form FTB 3814.
- New Employment Credit. Get form FTB 3554.
- Prison Inmate Labor Credit. Get form FTB 3507.
- Research Credit. Get form FTB 3523.

The passive activity limitations of IRC Section 469 may limit the amount of credits on line 15b, line 15c, line 15d, and line 15f. Line 15b, line 15c, and line 15d credits are related to the rental activities of the partnership.

Line 15f credits are related to the trade or business activities of the partnership. In general, passive activity credits from passive activities are limited to tax attributable to passive activities for California purposes (R&TC Section 17561). Credits that may be limited under the passive activity credit rules include the following:

- Research credit
- Low-income housing credit

You may be able to use the low-income housing credit, and other credits generated from rental activities, against tax on other income. Get form FTB 3801-CR for more information.

The partnership can include on line 15f your distributive share of net income taxes paid to other states by the partnership. Subject to the limitations of R&TC Section 18006, partners may claim a credit against their individual tax for net income taxes paid by the partnership to another state. The amount of tax paid is required to be supported by a copy of the return filed with the other state and evidence of the payment of the tax. Get California, Schedule S for more information.

Line 16
The information reported in box 16 of the federal Schedule K-1 (1065), does not apply to California and therefore there is no line 16.

Alternative Minimum Tax (AMT) Items
Line 17a through Line 17f, column (d)
Use the information reported on line 17a through line 17f, column (d) as well as your adjustments and tax preference items from other sources to complete Schedule P (100, 100W, 540, 540NR, or 541), Alternative Minimum Tax and Credit Limitations. For more information, see the instructions for federal Schedule K-1 (1065), box 17, Alternative minimum tax (AMT) items.

Tax-Exempt Income and Nondeductible Expenses
Line 18a through Line 18c - Tax-exempt Income and Nondeductible Expenses
See the instructions for federal Schedule K-1 (1065), box 18. The partnership should give you a description and the amount of your share for each item applicable to California in this category.

Distributions
Line 19a and Line 19b - Distributions
See the instructions for federal Schedule K-1 (1065), box 19.

Other Information
Line 20a and Line 20b - Investment Income and Investment Expenses
If the partnership paid or accrued interest on debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited.

For more information and the special provisions that apply to investment interest expense, get form FTB 3526, and federal Publication 550.

Use the column (d) amounts to determine the amount to enter on form FTB 3526, line 1.

The amounts shown on line 20a and line 20b include only investment income and expenses included on lines 5, 6, 7, 11, and 13d of this Schedule K-1 (565). The partnership should attach a schedule that shows the amount of any investment income and expenses included in any other line of this Schedule K-1 (565). Use these amounts, if any, to adjust line 20a and line 20b to determine your total investment income and total investment expenses from this partnership.

Combine these totals with investment income and expenses from all other sources to determine the amount to enter on form FTB 3526, line 1.

Line 20c - Other Information
For credit recaptures attach a schedule that includes the credit recapture, names, and amounts.

The partnership will provide supplemental information required to be reported to you on this line. If the partnership is claiming tax benefits
from an EZ, LAMBRA, MEA, or TTA it will give you the business income and business capital gains and losses apportioned to the EZ, LAMBRA, MEA, or TTA on this line. Get form FTB 3805Z, FTB 3807, FTB 3808, or FTB 3809 to claim any applicable credit.

The partnership may have provided a schedule with amounts showing your proportionate interest in the partnership’s aggregate gross receipts, less returns and allowances. A qualified taxpayer may exclude income, positive and negative adjustments, and preference items attributable to any trade or business from alternative minimum taxable income. A "qualified taxpayer" means a taxpayer that meets both of the following:

- Is the owner of, or has an ownership interest in a trade or business.
- Has aggregate gross receipts, less returns and allowances, of less than $1,000,000 during the taxable year from all trades or businesses in which the taxpayer is an owner or has an ownership interest. In the case of an ownership interest, you should include only your proportional share of aggregate gross receipts of any trade or business from a partnership, LLC, S corporation, regulated investment company (RIC), real estate investment trust (REIT), or real estate mortgage investment conduit (REMIC).

You need to add your share of the aggregate gross receipts from this partnership to your aggregate gross receipts from all other trades or businesses in which you hold an interest to determine if you are a qualified taxpayer.

For purposes of R&T Section 17062(b)(4), "aggregate gross receipts, less returns and allowances" means the sum of the following:

- The gross receipts of the trades or businesses which the taxpayer owns.
- The proportionate interest of the gross receipts of the trades or businesses which the taxpayer owns.
- The proportional interest of pass-through entities gross receipts in which the taxpayer holds an interest.

Gross Receipts - R&T Section 25120 was amended to add the definition of gross receipts. "Gross receipts" means the gross amounts realized (the sum of money and the fair market value of other property or services received) on:

- The sale or exchange of property,
- The performance of services, or
- The use of property or capital (including rents, royalties, interest, and dividends) in a transaction that produces business income, in which the income, gain, or loss is recognized (or would be recognized if the transaction were in the United States) under the IRC.

Amounts realized on the sale or exchange of property shall not be reduced by the cost of goods sold or the basis of property sold.

For a complete definition of "gross receipts", refer to R&T Section 25120(f) or go to ftb.ca.gov and search for 25120.

For purposes of this section, "pass-through entity" means a partnership (as defined by R&T Section 17008), an S corporation, a RIC, a REIT, and a REMIC. See R&T Section 17062 for more information.

The pro-rata share of gain or loss on property subject to the IRC Section 179 expense deduction recapture should be reported on Schedule K-1 (565) as other information. Follow the instructions on the federal Form 4797 and federal Schedule K-1 (1065) for the reporting requirements.

Get FTB Pub. 1001 for a listing of items of nonconformity for individuals.

Table 2 - Partner’s Share of Distributive Items

The Partnership will complete Table 2, Parts A to C for unitary partners and Table 2, Part C for all non-unitary partners. Table 2 does not need to be completed for non-unitary individuals. The final determination of unity is made at the partner level.

If the partner and the partnership are engaged in a single unitary business or if the partnership is uncertain as to whether it is unitary with the partner, the partnership will furnish the information in Table 2.

The partner’s share of the partnership’s business income is entered on Table 2, Part A. The partner then adds that income to its own business income and apportions the combined business income using the revised factor described below.

Table 2, Part B reflects the partner’s share of nonbusiness income from real and tangible property wholly sourced or allocable to California. This is added to apportioned business income and nonbusiness intangible income allocated to California and becomes a part of California taxable income. For more information, see R&T Sections 25124 and 25125, and Cal. Code Regs., tit. 18 sections 17951-1, 17951-2, and 17951-3.

The partner’s share of the partnership’s property, payroll, and sales factors is in Table 2, Part C. The partner combines its apportionment factors with the apportionment factors of the partnership and uses the revised factor to compute its business income apportioned to California. For more information see General Information D, Nonbusiness Income, and General Information E, Unitary Partners.

The partnership will complete Table 2, Part C to report the partner’s distributive share of property, payroll and sales Total within California.

Partners will use Table 2, Part C to determine if they meet threshold amounts of California property, payroll and sales.

R&T Section 23101 provides that a taxpayer is doing business in California if it actively engages in any transaction for the purpose of financial or pecuniary gain or profit in California or if any of the following conditions are satisfied:

- The taxpayer is organized or commercially domiciled in California.
- The sales, as defined in R&T Section 25120 (e) or (f), of the taxpayer in California, including sales by the taxpayer’s agents and independent contractors, exceed the lesser of $583,867 or 25% of the taxpayer’s total sales.
- The real property and tangible personal property of the taxpayer in California exceed the lesser of $58,387 or 25% of the taxpayer’s total real property and tangible personal property.
- The amount paid in California by the taxpayer for compensation, as defined in R&T Section 25120(c), exceeds the lesser of $58,387 or 25% of the total compensation paid by the taxpayer.

If the partner’s distributive share of property, payroll, or sales in California, when combined with the partner’s property, payroll, or sales in California from other pass-through entities or its own activities, exceeds the threshold amounts set forth in R&T Section 23101, the partner is “doing business” in California and must file a return and pay all applicable taxes, including the minimum franchise tax if the partner is a corporation or the applicable annual tax if the partner is a business entity that is required to pay an annual tax.

For more information, see R&T Section 23101 or go to ftb.ca.gov and search for doing business.

Table 3 - Partner’s share of cost of goods sold, deductions, and rental income.

Table 3 is completed for partners that are partnerships or LLCs taxed as partnerships. The information on Table 3 is used by LLCs that file Form 568, Limited Liability Company Return of Income, to determine their total income.

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