

Instructions for Form 1065

U.S. Return of Partnership Income

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

Future Developments

For the latest information about developments related to Form 1065 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form1065](https://www.irs.gov/Form1065).

What's New

Electronic payments. The United States is transitioning from the paper-based payments (including checks and money orders) to and from the federal government to electronic payments, to improve efficiency and prevent delays, risks of fraud, lost payments, and theft.

Making a payment. If there's a balance due on line 31, go to [IRS.gov/Payments](https://www.irs.gov/Payments). See the instructions for [line 31](#), later, for more details.

Direct deposit. To implement Executive Order 14247, we have added direct deposit fields on lines 32b, 32c, and 32d. If there's an overpayment on line 32a, enter your direct deposit information on lines 32b, 32c, and 32d.

Domestic research or experimental expenditures. P.L. 119-21, commonly known as the One Big Beautiful Bill Act, added section 174A, domestic research or experimental (R&E) expenditures. Under section 174A, domestic R&E expenditures paid or incurred in tax years beginning after 2024 are allowed as current-year expense deductions. Alternatively, under section 174A(c), taxpayers may elect to charge the expenditures to a capital account and amortize over a period of at least 60 months. Certain small businesses may apply the provisions of section 174A retroactively. See Rev. Proc. 2025-28 for more information.

Schedule B, question 19. Question 19 has been updated to include payments received that are allocable to foreign partners.

Schedules K and K-1, line 13, code X. P.L. 119-21 amended section 181 to include qualified sound recording production costs as an elective expense deduction. Taxpayers can elect to deduct certain costs of qualified sound recording productions that commence in a tax year ending after July 4, 2025, and before 2026. See [Code X](#) under [Line 13e](#), later, for more information.

Schedules K and K-1, line 19, distributions. Additional codes have been activated and the instructions have been updated to explain where to report different categories of distributions. See [Lines 19a and 19b](#), later, for more information.

Schedules K and K-1, line 20, code AR. Line 20, code AR, has been updated to notify partnerships that an employee identification number (EIN) will be required after 2025 for IRA partners receiving an unrelated business taxable income (UBTI) allocation. See [Code AR](#) under [Line 20c](#), later, for more information.

Schedules K and K-1, line 20, code AZ. Code AZ was added to report reimbursement of preformation expenditures. See [Code AZ](#) under [Line 20c](#), later.

Schedules K and K-1, line 20, code ZZ. P.L. 119-21 added section 1062, regarding the gain from the sale or exchange of qualified farmland property to qualified farmers. For tax years beginning after July 4, 2025, taxpayers can elect to pay the net income tax attributable to the gain on the sale or exchange of qualified farmland property in four equal installments. Partnerships must provide partners adequate information and a copy of the covenant needed to file Form 1062, Deferral of Tax on Gain From the Sale or Exchange of Qualified Farmland Property to Qualified Farmers, and its Schedule A to help partners who make the section 1062 election. See [Code ZZ](#) under [Line 20c](#), later, for more information.

Photographs of Missing Children

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

How To Get Tax Help

If you have questions about a tax issue; need help preparing your tax return; or want to download free publications, forms, or instructions, go to [IRS.gov](https://www.irs.gov) to find resources that can help you right away.

Tax reform. Tax reform legislation impacting federal taxes, credits, and deductions was enacted in P.L. 119-21, commonly known as the One Big Beautiful Bill Act, on July 4, 2025. Go to [IRS.gov/OBBB](https://www.irs.gov/OBBB) for more information and updates on how this legislation affects your taxes.

Online tax information in other languages. You can find information on [IRS.gov/MyLanguage](https://www.irs.gov/MyLanguage) if English isn't your native language.

Over-the-Phone Interpreter (OPI) Service. The IRS serves taxpayers with limited-English proficiency (LEP) by offering OPI service. The OPI Service is available at Taxpayer Assistance Centers (TACs), most IRS offices, and every VITA/TCE tax return site. The OPI Service is accessible in more than 300 languages.

Accessibility Helpline available for taxpayers with disabilities. Taxpayers who need information about accessibility services can call 833-690-0598. The Accessibility Helpline can answer questions related to current and future accessibility products and services available in alternative media formats (for example, braille-ready, large print, audio, etc.). The Accessibility Helpline doesn't have access to your IRS account. For help with tax law, refunds, or account-related issues, go to [IRS.gov/LetUsHelp](https://www.irs.gov/LetUsHelp).

Below is a message to you from the Taxpayer Advocate Service, an independent organization established by Congress.

The Taxpayer Advocate Service (TAS) Is Here To Help You

What Is the Taxpayer Advocate Service?

The Taxpayer Advocate Service (TAS) is an *independent* organization within the Internal Revenue Service (IRS). TAS helps taxpayers resolve problems with the IRS, makes administrative and legislative recommendations to prevent or correct the problems, and protects taxpayer rights. We work to ensure that every taxpayer is treated fairly and that you know and understand your rights under the Taxpayer Bill of Rights. We are Your Voice at the IRS.

How Can TAS Help Me?

TAS can help you resolve problems that you haven't been able to resolve with the IRS on your own. Always try to resolve your problem with the IRS first, but if you can't, then come to TAS.

Our services are free.

- TAS helps all taxpayers (and their representatives), including individuals, businesses, and exempt organizations. You may be eligible for TAS help if your IRS problem is causing financial difficulty, if you've tried and been unable to resolve your issue with the IRS, or if you believe an IRS system, process, or procedure just isn't working as it should.
- To get help any time with general tax topics, visit www.TaxpayerAdvocate.IRS.gov. The site can help you with common tax issues and situations, such as what to do if you make a mistake on your return or if you get a notice from the IRS.
- TAS works to resolve large-scale (systemic) problems that affect many taxpayers. You can report systemic issues at www.IRS.gov/SAMS. (Be sure not to include any personal identifiable information.)

How Do I Contact TAS?

TAS has offices in every state, the District of Columbia, and Puerto Rico. To find your local advocate's number:

- Go to www.TaxpayerAdvocate.IRS.gov/Contact-Us,
- Check your local directory, or
- Call TAS toll free at 877-777-4778.

What Are My Rights as a Taxpayer?

The Taxpayer Bill of Rights describes ten basic rights that all taxpayers have when dealing with the IRS. Go to www.TaxpayerAdvocate.IRS.gov/Taxpayer-Rights for more information about the rights, what they mean to you, and how they apply to specific situations you may encounter with the IRS. TAS strives to protect taxpayer rights and ensure the IRS is administering the tax law in a fair and equitable way.

How To Get Forms, Instructions, and Publications

Getting tax forms, instructions, and publications. Go to IRS.gov/Forms to download current and prior-year forms, instructions, and publications you may need.

Ordering tax forms, instructions, and publications. Go to IRS.gov/OrderForms to order current forms, instructions, and publications; call 800-829-3676 to order prior-year forms and instructions. The IRS will process your order for forms and publications as soon as possible. Don't resubmit requests you've already sent us. You can get forms and publications faster online.

Mobile-friendly forms. You'll need an IRS Online Account (OLA) to complete mobile-friendly forms that require signatures. You'll have the option to submit your form(s) online or download a copy for mailing. You'll need scans of your documents to support your submission. Go to IRS.gov/MobileFriendlyForms for more information.

Getting tax publications and instructions in eBook format. Download and view most tax publications and instructions (including the Instructions for Form 1040) on mobile devices as eBooks at IRS.gov/eBooks.

IRS eBooks have been tested using Apple's iBooks for iPad. Our eBooks haven't been tested on other dedicated eBook readers, and eBook functionality may not operate as intended.

General Instructions

Purpose of Form

Form 1065 is an information return used to report the income, gains, losses, deductions, credits, and other information from the operation of a partnership. Generally, a partnership doesn't pay tax on its income but passes through any profits or losses to its partners. Partners must include partnership items on their tax or information returns.

Definitions

Centralized Partnership Audit Regime

The Bipartisan Budget Act of 2015 (BBA) created the centralized partnership audit regime effective for partnership tax years beginning after 2017. It replaced the consolidated audit proceedings under the Tax Equity and Fiscal Responsibility Act (TEFRA). The centralized partnership audit regime applies to all partnerships unless the partnership is an eligible partnership and elects out by making a valid election using Schedule B-2 (Form 1065).

Electing out of the centralized partnership audit regime. See [Electing Out of the Centralized Partnership Audit Regime](#), later.

Adjustment year. An adjustment year is a tax year in which:

- In the case of an adjustment pursuant to the decision of a court in a proceeding brought under section 6234, such decision becomes final;
- In the case of an administrative adjustment request (AAR) under section 6227, such AAR is filed; or
- In any other case, a notice of final partnership adjustment is mailed under section 6231 or, if the partnership waives the restrictions under section 6232(b) (regarding limitations on assessments), the waiver is executed by the IRS.

Reviewed year. A reviewed year is a partnership's tax year to which a partnership adjustment relates.

Partnership

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

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

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

Business owned and operated by spouses. Generally, if you and your spouse jointly own and operate an unincorporated business and share in the profits and losses, you're partners in a partnership and you must file Form 1065.

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

A QJV conducts a trade or business where the only members of the joint venture are a married couple who file a joint return, both spouses materially participate in the trade or business (because mere joint ownership of property isn't enough), both spouses elect not to be treated as a partnership, and the business is co-owned by both spouses and isn't held in the name of a state law entity such as a partnership or limited liability company (LLC).

To make this election, you must divide all items of income, gain, loss, deduction, and credit between you and your spouse in accordance with your respective interests in the venture. Each of you must file a separate Schedule C (Form 1040), Profit or Loss From Business; or Schedule F (Form 1040), Profit or Loss From Farming. On each line of your separate Schedule C or F (Form 1040), you must enter your share of the applicable income, deduction, or loss. Each of you must also file a separate Schedule SE (Form 1040), Self-Employment Tax, to pay self-employment tax, as applicable.

If you and your spouse make the election for your rental real estate business, you each must report your share of income and deductions on Schedule E (Form 1040), Supplemental Income and Loss. Rental real estate income isn't generally included in net earnings from self-employment subject to self-employment tax and is generally subject to the passive loss limitation rules. Electing QJV status doesn't alter the application of the self-employment tax or the passive loss limitation rules.

To make the QJV election for 2025, jointly file the 2025 Form 1040 or 1040-SR with the required schedules. This generally doesn't increase the total tax on the return, but it does give each spouse credit for social security earnings on which retirement benefits are based, provided neither spouse exceeds the social security wage base limitation.

Once made, the election can't be revoked without IRS consent. If you and your spouse filed a Form 1065 for the year prior to the election, you don't need to amend that return or file a final Form 1065 for the year the election takes effect.

For more information on QJVs, go to [IRS.gov/QJV](https://www.irs.gov/QJV).

Foreign Partnership

A foreign partnership is a partnership that isn't created or organized in the United States or under the law of the United States or of any state. In certain instances, a partnership created or organized in the United States can be treated as a foreign partnership. See, for example, Regulations section 1.958-1(d)(1).

In addition, if a domestic section 721(c) partnership is formed after January 17, 2017, and the gain deferral method is applied, then a U.S. transferor must treat the section 721(c) partnership as a foreign partnership and file a Form 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, with

respect to the partnership. See Form 8865 and its instructions. See also Regulations section 1.721(c)-6(b)(4).

General Partner

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

General Partnership

A general partnership is composed only of general partners.

Limited Partner

A limited partner is a partner in a partnership formed under a state limited partnership law, whose personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership. Some members of other entities, such as domestic or foreign business trusts or LLCs that are classified as partnerships, may be treated as limited partners for certain purposes.

However, whether a partner qualifies as a limited partner for purposes of self-employment tax depends on whether the partner is considered a limited partner under section 1402(a)(13). See [Self-Employment](#), later.

Limited Partnership

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

Limited Liability Partnership (LLP)

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

Limited Liability Company (LLC)

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

Tip: A domestic LLC with at least two members that doesn't file Form 8832 is classified as a partnership for federal income tax purposes.

Nonrecourse Loans

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

Section 721(c) Partnership

A partnership (domestic or foreign) is a section 721(c) partnership if there is a contribution of section 721(c) property to the partnership and, after the contribution (and all transactions related to the contribution), (a) a related foreign person with respect to the U.S. transferor is a direct or indirect partner in the partnership; and (b) the U.S. transferor and related persons own 80% or more of the interests in partnership capital, profits, deductions, or losses. See Regulations section 1.721(c)-1(b)(14).

U.S. Transferor

A U.S. transferor is a U.S. person other than a domestic partnership. See Regulations section 1.721(c)-1(b)(18).

Section 721(c) Property

Section 721(c) property is property (other than excluded property) with built-in gain that is contributed to a partnership by a U.S. transferor, including pursuant to a contribution described in Regulations section 1.721(c)-2(d) (partnership look-through rule). See Regulations section 1.721(c)-1(b)(15).

Gain Deferral Contribution

A gain deferral contribution is a contribution of section 721(c) property to a section 721(c) partnership with respect to which the recognition of gain is deferred under the gain deferral method. See Regulations section 1.721(c)-1(b)(7).

Gain Deferral Method

The gain deferral method is the method described in Regulations section 1.721(c)-3(b) applied to avoid the immediate recognition of gain on a contribution of section 721(c) property to a section 721(c) partnership under Regulations section 1.721(c)-2(b).

Who Must File

Domestic Partnerships

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

Note: To be certified as a qualified opportunity fund (QOF), the partnership must file Form 1065 and attach Form 8996, Qualified Opportunity Fund, even if the partnership had no income or expenses to report. See Schedule B, question 25, and the Instructions for Form 8996.

Entities formed as LLCs that are classified as partnerships for federal income tax purposes have the same filing requirements as domestic partnerships.

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

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

Real estate mortgage investment conduits (REMICs) must file Form 1066, U.S. Real Estate Mortgage Investment Conduit (REMIC) Income Tax Return.

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

Note: Notwithstanding the preceding, a partnership that is, or has a branch that is, a qualified derivatives dealer (QDD) must file Form 1065. See [Qualified derivatives dealers \(QDDs\)](#), later.

Foreign Partnerships

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

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

Note: Notwithstanding the preceding, a partnership that is, or has a branch that is, a QDD must file Form 1065. See [Qualified derivatives dealers \(QDDs\)](#), later.

Exception for foreign partnerships with U.S. partners. A return isn't required if:

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

Exception for foreign partnerships with no U.S. partners and no effectively connected income. A foreign partnership with U.S. source income isn't required to file a return if it meets the following requirements.

- The partnership had no effectively connected income during its tax year.
- The partnership had no U.S. partners at any time during its tax year.
- The partnership isn't a withholding foreign partnership as defined in Regulations section 1.1441-5(c)(2)(i).
- All required Forms 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, and 1042-S, Foreign Person's U.S. Source Income Subject to Withholding, were filed by the partnership or another withholding agent as required by Regulations sections 1.1461-1(b) and (c).
- The tax liability of each partner for amounts reportable under Regulations sections 1.1461-1(b) and (c) has been fully satisfied by the withholding of tax at the source.

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

Qualified derivatives dealers (QDDs) A partnership that is, or has a branch that is, a QDD (QDD partnership) must file Form 1065 even if it wouldn't be required to file otherwise. A QDD partnership must attach a statement (QDD statement) to its Form 1065 with certain required information as provided in section 7.01(C) of the qualified intermediary agreement in Rev. Proc. 2022-43, 2022-52 I.R.B. 570. If the only reason the partnership is filing Form 1065 is because it's a QDD partnership, then the only information it must provide on Form

1065 in addition to the QDD statement is its tax year, name, address, and EIN; and it must check item G on page 1 of Form 1065. While a partnership is generally required to use an EIN, if the only reason the partnership is filing Form 1065 is because it's a QDD partnership and it doesn't have an EIN, it may use its QI-EIN instead.

Termination of the Partnership

A partnership terminates when all its operations are discontinued and no part of any business, financial operation, or venture is continued by any of its partners in a partnership.

The partnership's tax year ends on the date of termination which is the date the partnership winds up its affairs. Special rules apply in the case of a merger, consolidation, or division of a partnership. See Regulations sections 1.708-1(c) and (d) for details. Also see [IRS.gov/Newsroom/Questions-and-answers-about-technical-terminations-Internal-Revenue-Code-IRC-sec-708](https://www.irs.gov/Newsroom/Questions-and-answers-about-technical-terminations-Internal-Revenue-Code-IRC-sec-708).

Electronic Filing

Beginning in 2024, partnerships were required to file Form 1065 and related forms and schedules electronically if they file 10 or more returns of any type during the tax year, including information, income tax, employment tax, and excise tax returns. See Regulations section 301.6011-3, updated by T.D. 9972.

Partnerships with more than 100 partners are required to file Form 1065, Schedules K-1, and other related forms and schedules electronically.

Exclusions From Electronic Filing

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

All written requests for waivers should be mailed to:

Internal Revenue Service
Ogden Submission Processing Center
Attn: Form 1065 e-file Waiver Request, Stop 1057
Ogden, UT 84201

Use the following address if using an overnight delivery service.

Internal Revenue Service
Ogden Submission Processing Center
Attn: Form 1065 e-file Waiver Request, Stop 1056
1973 N. Rulon White Blvd.
Ogden, UT 84404

Waiver requests can also be faxed to 877-477-0575.

Contact the e-Help Desk at 866-255-0654 for questions regarding the waiver procedures or process. For more information, go to [IRS.gov/E-file-Providers/Guidance-on-waivers-for-partnerships-unable-to-meet-e-file-requirements](https://www.irs.gov/E-file-Providers/Guidance-on-waivers-for-partnerships-unable-to-meet-e-file-requirements).

Religious. If using the technology required to file electronically conflicts with the religious beliefs of the partners, the partnership is exempt from the requirement and may file using paper forms. Enter "Religious Exemption" at the top of page 1 of Form 1065 filed in paper form. Also, most filers claiming the religious exemption who file information returns subject to the general electronic filing requirements prescribed by Regulations section 301.6011-2 (for example, Forms 1099 and Forms W-2) have the option to notify the IRS that they qualify for a religious exemption in advance of filing returns and

other documents. Filers are encouraged to notify the IRS in advance that they're claiming a religious exemption by filing Form 8508, Application for a Waiver from Electronic Filing of Information Returns, in accordance with the form's instructions. For additional information, see Notice 2024-18, 2024-5 I.R.B. 625, available at [IRS.gov/irb/2024-05_IRB#NOT-2024-18](https://www.irs.gov/irb/2024-05_IRB#NOT-2024-18).

The requirement to file electronically doesn't apply to certain returns, including:

- Bankruptcy returns, and
- Returns with pre-computed penalty and interest.

See Rev. Proc. 2012-17, available at [IRS.gov/pub/irs-irbs/irb12-17.pdf](https://www.irs.gov/pub/irs-irbs/irb12-17.pdf), for the requirements for furnishing substitute Schedule K-1 in electronic format.

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

- Pub. 3112, IRS e-file Application & Participation;
- Pub. 4163, Modernized e-File (MeF) Information for Authorized IRS e-File Providers for Business Returns;
- Pub. 4164, Modernized e-File (MeF) Guide for Software Developers and Transmitters;
- Form 8453-PE, E-file Declaration for Form 1065; and
- Form 8879-PE, E-file Authorization for Form 1065.

For More Information on Filing Electronically

- Call the e-Help Desk at 866-255-0654.
- Go to [IRS.gov/Filing](https://www.irs.gov/Filing).

When To File

Generally, a domestic partnership must file Form 1065 by the 15th day of the 3rd month following the date its tax year ended as shown at the top of Form 1065. For calendar-year partnerships, the due date is March 15.

If the due date falls on a Saturday, Sunday, or legal holiday in the District of Columbia or the state in which you file your return, a return filed by the next day that isn't a Saturday, Sunday, or legal holiday will be treated as timely. Calendar-year partnerships may therefore timely file their returns for the 2025 partnership year by March 16, 2026.

Private Delivery Services (PDSs)

Partnerships can use certain PDSs designated by the IRS to meet the "timely mailing as timely filing/paying" rule for tax returns. Go to [IRS.gov/PDS](https://www.irs.gov/PDS) for the current list of designated services. The PDS can tell you how to get written proof of the mail date.

For the IRS mailing address to use if you're using a PDS, go to [IRS.gov/PDSStreetAddresses](https://www.irs.gov/PDSStreetAddresses).

Caution: A PDS can't deliver items to P.O. boxes. You must use the U.S. Postal Service to mail any item to an IRS P.O. box address.

Extension of Time To File

File Form 7004, Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns, to request an extension of time to file. File Form 7004 by the regular due date of the partnership return. Form 7004 can be electronically filed. See the Instructions for Form 7004.

Period Covered

The 2025 Form 1065 is an information return for calendar year 2025 and fiscal years that begin in 2025 and end in 2026. For a fiscal year or a short tax year, fill in the tax year space at the top of Form 1065 and each Schedule K-1 or K-3, if applicable.

Where To File

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

If the partnership's principal business, office, or agency is located in:	And the total assets at the end of the tax year (Form 1065, page 1, item F) are:	Use the following address:
Connecticut, Delaware, District of Columbia, Georgia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, West Virginia, Wisconsin	Less than \$10 million and Schedule M-3 isn't filed	Department of the Treasury Internal Revenue Service Center Kansas City, MO 64999-0011
Connecticut, Delaware, District of Columbia, Georgia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, West Virginia, Wisconsin	\$10 million or more or less than \$10 million and Schedule M-3 is filed	Department of the Treasury Internal Revenue Service Center Ogden, UT 84201-0011
Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, Wyoming	Any amount	Department of the Treasury Internal Revenue Service Center Ogden, UT 84201-0011
A foreign country or U.S. territory	Any amount	Internal Revenue Service P.O. Box 409101 Ogden, UT 84409

The 2025 Form 1065 may also be used if:

- The partnership has a tax year of less than 12 months that begins and ends in 2026, and
- The 2026 Form 1065 isn't available by the time the partnership is required to file its return.

However, the partnership must show its 2026 tax year on the 2025 Form 1065 and incorporate any tax law changes that are effective for tax years beginning after 2025.

Who Must Sign

Any Partner or LLC Member

Form 1065 isn't considered to be a return unless it's signed by a partner or LLC member. When a return is made for a partnership by a receiver, trustee, or assignee, the fiduciary must sign the return, instead of the partner or LLC member. Returns and forms signed by a receiver or trustee in bankruptcy on behalf of a partnership must be accompanied by a copy of the order or instructions of the court authorizing signing of the return or form. In the case of an entity partner, an individual who is authorized under state law to act for the entity partner must sign the partnership return.

Signatures required when filing an AAR. When filing an AAR, Form 1065 must be signed by the partnership representative (PR) (or the designated individual (DI) if the PR is an entity) for the reviewed year.

Paid Preparer's Information

If a partner, member, or employee of the partnership completes Form 1065, the paid preparer's space should remain blank. Only paid preparers with a valid preparer tax identification number (PTIN) should complete this section.

Generally, anyone who is paid to prepare the partnership return must do the following.

- Sign the return in the space provided for the preparer's signature.
- Fill in the other blanks in the Paid Preparer Use Only section of the return. A paid preparer can't use a social security number (SSN) in the Paid Preparer Use Only section. The paid preparer must use a PTIN.
- Give the partnership a copy of the return in addition to the copy to be filed with the IRS.

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

Paid Preparer Authorization

If the partnership wants to allow the paid preparer to discuss its 2025 Form 1065 with the IRS, check "Yes" in the signature area of the return. The authorization applies only to the individual whose signature appears in the Paid Preparer Use Only section of its return. It doesn't apply to the firm, if any, shown in the section.

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

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

The partnership isn't authorizing the paid preparer to bind the partnership to anything or otherwise represent the partnership before the IRS. If the partnership wants to expand the paid

preparer's authorization, see Pub. 947, Practice Before the IRS and Power of Attorney.

The authorization can't be revoked. However, the authorization will automatically end no later than the due date (excluding extensions) for filing the 2026 return.

Penalties

Late Filing of Return

A penalty is assessed against the partnership if it's required to file a partnership return and it (a) fails to file the return by the due date, including extensions; or (b) files a return that fails to show all the information required, unless such failure is due to reasonable cause. The penalty is \$255 for each month or part of a month (for a maximum of 12 months) the failure continues, multiplied by the total number of persons who were partners in the partnership during any part of the partnership's tax year for which the return is due. If the partnership receives a notice about a penalty after it files the return, the partnership may send the IRS an explanation and the IRS will determine if the explanation meets reasonable-cause criteria. **Don't** attach an explanation when filing the return.

Failure To Furnish Information Timely

For each failure to furnish Schedule K-1 (and Schedule K-3, if applicable) to a partner when due and each failure to include on Schedule K-1 (and Schedule K-3, if applicable) all the information required to be shown (or the inclusion of incorrect information), a \$340 penalty may be imposed for each Schedule K-1 (and Schedule K-3, if applicable) for which a failure occurs. For all such failures during a calendar year, the maximum penalty for entities with gross receipts over \$5,000,000 is \$4,098,500; and \$1,366,000 for entities with gross receipts at or below \$5,000,000. If the requirement to report correct information is intentionally disregarded, each \$340 penalty is increased to \$680 or, if greater, 10% of the aggregate amount of items required to be reported. There's no limit to the amount of the penalty in the case of intentional disregard.

Trust Fund Recovery Penalty

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

- Form 720, Quarterly Federal Excise Tax Return;
- Form 941, Employer's QUARTERLY Federal Tax Return;
- Form 943, Employer's Annual Federal Tax Return for Agricultural Employees;
- Form 944, Employer's ANNUAL Federal Tax Return; and
- Form 945, Annual Return of Withheld Federal Income Tax.

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

Accounting Methods

An accounting method is a set of rules used to determine when and how income and expenditures are reported. The method of accounting used must be reconcilable with the partnership's books and records. In all cases, the method used must clearly reflect income. Generally, the following rules apply. For more information, see Pub. 538, Accounting Periods and Methods.

Permissible overall methods of accounting include:

- Cash,

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

Generally, a partnership may use the cash method of accounting unless it's required to maintain inventories, has a C corporation as a partner, or is a tax shelter (as defined in section 448(d)(3)). However, for tax years beginning after 2017, any partnership qualifying as a small business taxpayer (defined below) may use the cash method.

Tax shelter election. A taxpayer that is a tax shelter, as defined in section 448(d)(3), isn't permitted to use the cash method pursuant to section 448(a)(3), and is also not permitted to use the small business taxpayer exemptions contained in sections 163(j)(3) (limitation on business interest), 263A(i) (uniform capitalization), 460(e)(1)(B) (percentage of completion method), and 471(c) (general inventory method). Under section 448(d)(3), a taxpayer that is a syndicate is considered a tax shelter. For purposes of section 448(d)(3), a syndicate is a partnership or other entity (other than a C corporation) if more than 35% of the losses of such entity during the tax year are allocated to limited partners or limited entrepreneurs.

The final regulations under section 448 permit a taxpayer to make an annual election to use its allocations made in the immediately preceding tax year, instead of using the current tax year's allocation, to determine whether the taxpayer is a syndicate under section 448(d)(3) for the current tax year. The election is made on the timely filed original return (including extensions) for the tax year for which it's made. The election is valid only for the tax year for which it's made and, once made, can't be revoked. See Regulations section 1.448-2(b)(2)(iii)(B) (2) for guidance on the time and manner of making the annual election and effective dates.

Small business taxpayer. For tax years beginning after 2017, a small business taxpayer (defined below) can adopt or change its accounting method to account for inventories (a) in the same manner as materials and supplies that are nonincidental; or (b) to conform to the taxpayer's treatment of inventories in an applicable financial statement (as defined in section 451(b)(3)), or, if the taxpayer doesn't have an applicable financial statement, the method of accounting used in the taxpayer's books and records prepared in accordance with the taxpayer's accounting procedures. See section 471(c)(1), and [Change in accounting method](#), later.

For tax years beginning after 2017, a small business taxpayer can adopt or change its accounting method to not capitalize costs to property produced or acquired for resale under section 263A. See section 263A(i), and [Change in accounting method](#) and [Limitations on Deductions](#), later.

Small business taxpayer defined. For 2025, a small business taxpayer is a taxpayer that (a) has average annual gross receipts of \$31 million or less for the prior 3 tax years, and (b) isn't a tax shelter (as defined in section 448(d)(3)).

Accrual method. Generally, under the accrual method, an amount is includible in income when:

1. All the events have occurred that fix the right to receive income, which is the earliest date:
 - a. Payment is earned through the required performance,
 - b. Payment is due to the taxpayer,
 - c. Payment is received by the taxpayer,
 - d. When title passes, or
 - e. When the income is reported as revenue in an applicable financial statement (AFS); and
2. When the amount can be determined with reasonable accuracy.

See Regulations sections 1.451-1(a) and -3(c) for details.

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

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

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

Nonaccrual-experience method. Accrual method partnerships aren't required to accrue certain amounts to be received from the performance of services that, on the basis of their experience, won't be collected if:

- The services are in the field of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting; or
- The partnership's average annual gross receipts don't exceed \$31 million for all prior tax years. For more details, see section 448(d)(5).

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

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

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

Dealers in commodities and traders in securities and commodities can elect to use the mark-to-market accounting method. To make the election, the partnership must file a statement describing the election, the first tax year the election is to be effective, and, in the case of an election for traders in securities or commodities, the trade or business for which the election is made. Except for new taxpayers, the statement must be filed by the due date (not including extensions) of the return for the tax year immediately preceding the election year and attached to that return or, if applicable, to a request for an extension of time to file that return. For more details, see Rev. Proc. 99-17, 1999-7 I.R.B. 52; Rev. Proc. 2025-23, 2025-24 I.R.B. 1476; and sections 475(e) and (f).

Change in accounting method. Generally, the partnership must get IRS consent to change its method of accounting used to report income or expense (for income or expense as a whole or for any material item). To do so, the partnership must generally file Form 3115, Application for Change in Accounting Method, during the tax year for which the change is requested. See the Instructions for Form 3115 and Pub. 538 for more information and exceptions.

Section 481(a) adjustment. The partnership may have to make an adjustment to prevent amounts of income or expenses from being omitted or duplicated. This is called a section 481(a) adjustment. The section 481(a) adjustment period is generally 1 year for a net negative adjustment and 4 years for a net positive adjustment. However, in some instances, a partnership can elect to modify the section 481(a) adjustment period. The partnership must complete the appropriate lines of Form 3115 to make the election. See the Instructions for Form 3115.

Include any net positive section 481(a) adjustment on page 1 of Form 1065, line 7. If the net section 481(a) adjustment is negative, report it on page 1, line 21.

There are some instances when the partnership can obtain automatic consent from the IRS to change to certain accounting methods. See the Instructions for Form 3115.

Accounting Periods

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

1. The tax year of a majority of its partners (majority tax year).
2. If there's no majority tax year, then the tax year common to all of the partnership's principal partners (partners with an interest of 5% or more in the partnership profits or capital).
3. If there's neither a majority tax year nor a tax year common to all principal partners, then the tax year that results in the least aggregate deferral of income.

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

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

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

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

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

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

Rounding Off to Whole Dollars

The partnership may enter decimal points and cents when preparing its return. However, it should round off cents to whole dollars on its return, forms, and schedules to make completing its return easier. The partnership must either round off all

amounts on the return to whole dollars, or use cents for all amounts. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, \$8.40 rounds to \$8 and \$8.50 rounds to \$9.

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

Recordkeeping

The partnership must keep its records as long as they may be needed for the administration of any provision of the Code. The partnership must usually keep records that support an item of income, deduction, or credit on the partnership return for 3 years from the date the return is due or is filed, whichever is later. These records must usually be kept for 3 years from the date each partner's return is due or is filed, whichever is later. It must also keep records that verify the partnership's basis in property for as long as they are needed to figure the basis of the original or replacement property.

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

Other forms and statements. See Pub. 541, Partnerships, for a list of other forms and statements a partnership may need to file in addition to the forms and statements discussed throughout these instructions.

Administrative Adjustment Request (AAR)

A partnership that is subject to the BBA centralized partnership audit regime must file an AAR to request an administrative adjustment in the amount or other treatment of one or more partnership-related items.

A BBA partnership filing an AAR shouldn't file an amended tax return or amended Schedules K-1 and/or K-3. For an exception where a BBA partnership is itself a partner in a BBA partnership and is filing an amended return, see [Partner amended return filed as part of modification of the IU during a BBA examination](#), later.

Electronically filed AARs. If the AAR will be filed electronically, complete Form 1065 with the corrected amounts and check box G(5). In addition, complete Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR). See the Instructions for Form 8082 for detailed instructions. For AARs filed on paper, see [Paper-filed amended returns and AARs](#), later.

AARs for which payment is made. A partnership that hasn't made a valid election out of the BBA centralized partnership audit regime, which is filing an AAR and that doesn't elect to have its partners take adjustments into account, and that has adjustments that result in an imputed underpayment (IU), should report the IU and any interest and penalties on Form 1065, page 1, line 26. See the Instructions for Form 8082 for information on how to figure a BBA IU and what to do when an adjustment requested by an AAR doesn't result in an IU. Also see *IU Under the Centralized Partnership Audit Regime* in the Instructions for Form 8082 for the required schedule to be included with Form 1065 that details the IU, prepaid interest, and prepaid penalties. See section 6233 for information about interest and penalties on the IU. Include the following information on your payment.

- Name of partnership.
- Form 1065.
- Taxpayer identification number (TIN).
- Tax year.
- BBA AAR Imputed Underpayment.
- Checks must be made payable to "United States Treasury."

Mail payment to:

Internal Revenue Service
Ogden Service Center
Ogden, UT 84201-0011

Payments can be made by check or electronically. If making an electronic payment, choose the payment description "BBA AAR Imputed Underpayment" from the list of payment types.

If the partnership has an IU, the partnership may elect to have its partners take the adjustments into account instead of paying the IU. See the Instructions for Form 8082 for information on how to make the election.

Amended Return

The procedures to follow when filing an amended partnership return depend on whether the amended return is filed electronically or on paper. The rules for determining when a return must be filed electronically (see [Electronic Filing](#), earlier) also apply to amended returns.

Electronically filed amended returns. If the amended return will be filed electronically, complete Form 1065 and check box G(5) to indicate that you're filing an amended return. Attach a statement that identifies the line number of each amended item, the corrected amount or other treatment of the item, and an explanation of the reason(s) for each change. If the income, deductions, credits, or other information provided to any partner on Schedule K-1 or K-3, as applicable, is incorrect, file an amended Schedule K-1 or K-3 for that partner with the amended Form 1065. Also give a copy of the amended Schedule K-1 or K-3 to that partner. Check the "Amended K-1" box at the top of Schedule K-1 or the "Amended K-3" box in item F of Schedule K-3 to indicate that it's an amended Schedule K-1 or K-3.

Partner amended return filed as part of modification of the IU during a BBA examination. Section 6225(c)(2) allows a BBA partnership under examination to request specific types of modifications of any IU proposed by the IRS. One type of modification that may be requested is when one or more partners, including partnership-partners, file amended returns for the tax years of the partners which include the end of the reviewed year of the BBA partnership under examination and for any tax year with respect to which tax attributes are affected. Go to [IRS.gov/BBAAR](#).

A modification amended return filing must meet a number of requirements. Therefore, a partnership-partner filing a modification amended return must refer to Form 8982, Affidavit for Partner Modification Amended Return Under IRC 6225(c)(2) (A) or Partner Alternative Procedure Under IRC 6225(c)(2)(B). The instructions for Form 8982, Section A, explain the modification of amended returns, requirements for payment and submission, and the requirement to provide Form 8982, Section A, to the PR of the BBA partnership. See *Filing Instructions for Partner Modification Amended Returns* and *Paying the Amount You Owe* in the instructions for Form 8982.

Partnership-partners who are filing amended returns electronically as part of the modification will report the applicable payment of tax and interest and any penalties on Form 1065, page 1, line 26. A payment made with an amended Form 1065 should detail the amount of the payment to be applied separately to tax, interest, and penalties. The partnership should consider all guidance issued by the IRS when figuring the amount due. In general, the partnership should figure its amount due in accordance with Regulations sections 301.6225-2(d)(2)(vi)(A) and 301.6226-3(e)(4)(iii).

Paper-filed amended returns and AARs. If the amended return or AAR won't be filed electronically, complete Form

1065-X, Amended Return or Administrative Adjustment Request (AAR), to file the amended return or AAR. See Form 1065-X and its separate instructions for information on completing and filing the form.

Tip: When a partnership's federal return is amended or changed for any reason, it may affect the partnership's state tax return. For more information, contact the state tax agency for the state in which the partnership return was filed.

What if You Can't Pay Now?

Go to [IRS.gov/Payments](https://www.irs.gov/Payments) for more information about your options.

- Apply for an [online payment agreement \(IRS.gov/OPA\)](https://www.irs.gov/OPA) to meet your tax obligation in monthly installments if you can't pay your taxes in full today. Once you complete the online process, you will receive immediate notification of whether your agreement has been approved.
- Use the [Offer in Compromise Pre-Qualifier \(IRS.gov/OIC\)](https://www.irs.gov/OIC) to see if you can settle your tax debt for less than the full amount you owe.

Assembling the Return

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

- Pages 1–6.
- Schedule F (Form 1040), Profit or Loss From Farming (if required).
- Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation (if required).
- Schedule D (Form 1065), Capital Gains and Losses (if required).
- Form 4797, Sales of Business Property (if required).
- Form 8949, Sales and Other Dispositions of Capital Assets (if required).
- Form 8996, Qualified Opportunity Fund (if required).
- Form 1125-A, Cost of Goods Sold (if required).
- Form 8941, Credit for Small Employer Health Insurance Premiums (if required).
- Form 3800, General Business Credit (if required).
- Form 6252, Installment Sale Income (if required).
- Form 8997, Initial and Annual Statement of Qualified Opportunity Fund (QOF) Investments (if required).
- Form 8283, Noncash Charitable Contributions (if required).
- Schedule A (Form 8936), Clean Vehicle Credit Amount (if required).
- Form 4255, Certain Credit Recapture, Excessive Payments, and Penalties.
- Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc.
- Form 8938, Statement of Specified Foreign Financial Assets (if required).
- Any other schedules in alphabetical order, including Schedules K-2 and K-3.
- Any other forms in numerical order.

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

Entity Classification Election

Use Form 8832 to make a change in classification. Except for certain business entities always classified as corporations, a business entity with at least two members may choose to be classified either as a partnership or an association taxable as a

corporation. A domestic eligible entity with at least two members that doesn't file Form 8832 is classified under the default rules as a partnership. However, a foreign eligible entity with at least two members is classified under the default rules as a partnership only if the entity doesn't provide limited liability to at least one member. File Form 8832 only if the entity doesn't want to be classified under these default rules or if it wants to change its classification.

Caution: Attach a copy of Form 8832 to the partnership's Form 1065 for the tax year of the election.

Elections Made by the Partnership

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

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

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

This election must be made in a statement that is filed with the partnership's timely filed return (including any extension) for the tax year during which the distribution or transfer occurs. See Regulations section 1.754-1(b)(1). The statement must include:

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

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

See section 754 and the related regulations for more information.

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

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

To revoke a section 754 election, the partnership must file the revocation request using Form 15254, Request for Section 754 Revocation. See the instructions for Form 15254 for more information.

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

6. Regulations section 1.1411-10(g) (section 1411 election regarding controlled foreign corporations (CFCs) and qualified electing fund (QEF)).

A domestic partnership that directly or indirectly owns stock of a CFC (within the meaning of section 953(c)(1)(B) or 957(a)) or a passive foreign investment company (PFIC) (within the meaning of section 1297(a)) that the domestic partnership treats as a QEF under section 1293 may make the election provided in Regulations section 1.1411-10(g). The election must be made no later than the first tax year beginning after 2013 during which the partnership:

- Includes an amount in gross income for chapter 1 purposes under section 951(a) or section 1293(a)(1)(A) for the CFC or QEF, and
- Has a direct or indirect owner that is subject to tax under section 1411 or would have been if the election were made.

This election must be made on an entity-by-entity basis, and applies only to the particular CFCs and QEFs for which an election is made. In general, for purposes of section 1411, if an election is in effect for a CFC or QEF, the amounts included in income under sections 951 and 1293 derived from the CFC or QEF are included in net investment income, and distributions described in section 959(d) or 1293(c) are excluded from net investment income. An election that is made under Regulations section 1.1411-10(g) can't be revoked. For more information regarding this election, see Regulations section 1.1411-10(g).

The election must be made in a statement that is filed with the partnership's original or amended return for the tax year in which the election is made. An election can be made on an amended return only if the tax year for which the election is made, and all tax years affected by the election, aren't closed by the period of limitations on assessments under section 6501. The statement must include:

- The name and EIN of the partnership making the election;
- A declaration that the partnership elects under Regulations section 1.1411-10(g) to apply the rules in Regulations section 1.1411-10(g) to the CFCs and QEFs identified in the statement; and
- The following information for each CFC and QEF for which an election is made: (a) the name of the CFC or QEF; and (b) either the EIN of the CFC or QEF, or, if an EIN isn't available, the reference ID number of the CFC or QEF.

7. Section 41(h) (payroll tax credit election).

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

If the basis of partnership property has been adjusted for a transferee partner under section 743(b), the partnership must adjust the transferee's distributive share of the items of partnership income, deduction, gain, or loss in accordance with Regulations sections 1.743-1(j)(3) and (4). These adjustments (other than adjustments to depletable oil and gas property allocable to the partner under section 613A(c)(7)(D)) must be reported on Schedule K and the transferee partner's Schedule K-1. Report the adjustments on an attached statement to Schedule K, line 20c, code U. See the instructions for Schedule K, line 20. Identify the partnership item being adjusted and the amount of the adjustment. If the adjustments are to partnership items from more than one trade or business, report the adjustments separately for each activity.

Electing Out of the Centralized Partnership Audit Regime

A partnership can elect out of the centralized partnership audit regime for a tax year if the partnership is an eligible partnership that year. See [Question 33](#) under *Schedule B*, later.

Elections Made by Each Partner

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

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

Partner's Dealings With Partnership

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

Contributions to the Partnership

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

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

See Regulations sections 1.721(c)-1(b)(7) and -3(b) for more information on a gain deferral contribution of section 721(c) property to a section 721(c) partnership. Also see [Section 721\(c\) Partnership](#), [Section 721\(c\) Property](#), and [Gain Deferral Method](#) under [Definitions](#), earlier.

Dispositions of Contributed Property

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

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

See section 704(c) for details and other rules on dispositions of contributed property. See section 724 for the character of any

gain or loss recognized on the disposition of unrealized receivables, inventory items, or capital loss property contributed to the partnership by a partner.

See Regulations sections 1.721(c)-4 and -5 for more information on certain dispositions of contributed section 721(c) property to which the gain deferral method applies. Also see [Section 721\(c\) Partnership](#), [Section 721\(c\) Property](#), and [Gain Deferral Method](#) under [Definitions](#), earlier.

Recognition of Precontribution Gain on Certain Partnership Distributions

A partner who contributes appreciated property to the partnership must include in income any precontribution gain to the extent the FMV of other property (other than money) distributed to the partner by the partnership exceeds the adjusted basis of the partner's partnership interest just before the distribution. Precontribution gain is the net gain, if any, that would have been recognized under section 704(c)(1)(B) if the partnership had distributed to another partner all the property that had been contributed to the partnership by the distributee partner within 7 years of the distribution and that was held by the partnership just before the distribution.

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

For more details and exceptions, see Pub. 541.

Unrealized Receivables and Inventory Items

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

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

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

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

At-Risk Limitations

In general, section 465 limits the amount of deductible losses partners can claim from certain activities. The at-risk limitations don't apply to the partnership, but instead apply to each partner's share of net losses attributable to each activity. Because the treatment of each partner's share of partnership losses depends on the nature of the activity that generated it, the partnership must report the items of income, loss, and deduction separately for each activity. The at-risk limitations apply to individuals, estates, trusts, and certain closely held C corporations. See Pub.

925, Passive Activity and At-Risk Rules, for additional information.

Activities covered by the at-risk rules. If the partnership is involved in one of the following activities as a trade or business or for the production of income, the partner may be subject to the at-risk rules.

1. Holding, producing, or distributing motion picture films or videotapes.
2. Farming.
3. Leasing section 1245 property, including personal property and certain other tangible property that's depreciable or amortizable.
4. Exploring for, or exploiting, oil and gas.
5. Exploring for, or exploiting, geothermal deposits (for wells started after September 1978).
6. Any other activity not included in items 1 through 5, above, that's carried on as a trade or business or for the production of income.

Aggregation of activities. Activities described in item 6 above that constitute a trade or business are treated as one activity if:

- You actively participate in the management of the trade or business, or
- The trade or business is carried on by a partnership or S corporation and 65% or more of its losses for the tax year are allocable to persons who actively participate in the management of the trade or business.

Similar rules apply to activities described in items 1 through 5 above. For more information, see Pub. 925.

If you aggregate your activities under these rules for section 465 purposes, check the appropriate box in item K below the name and address block on page 1 of Form 1065.

At-risk activity reporting requirements. If the partnership items of income, loss, or deduction reported on Schedule K-1 are from more than one activity covered by the at-risk rules, the partnership should report on an attachment to Schedule K-1 information relating to each activity as is required by [Item K1](#), later. See the Instructions for Form 6198 and Pub. 925 for additional information needed to help the partner compute the profit or loss from each at-risk activity and the amount at risk that may be required to be separately reported.

Passive Activity Limitations

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

The following instructions and the instructions for Schedules K and K-1, later, explain the applicable passive activity limitation rules and specify the type of information the partnership must provide to its partners for each activity. If the partnership had more than one activity, it must report information for each activity on an attached statement to Schedules K and K-1.

Generally, passive activities include (a) activities that involve the conduct of a trade or business if the partner doesn't materially participate in the activity, and (b) all rental activities (defined later) regardless of the partner's participation. For exceptions, see [Activities That Aren't Passive Activities](#), later.

The level of each partner's participation in an activity must be determined by the partner.

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

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

To allow each partner to correctly apply the passive activity limitations, the partnership must report income or loss and credits separately by activity for each of the following.

- Trade or business activities.
- Rental real estate activities.
- Rental activities other than real estate.
- Portfolio income.

Activities That Aren't Passive Activities

The following aren't passive activities.

1. Trade or business activities in which the partner materially participated for the tax year.
2. Any rental real estate activity in which the partner materially participated if the partner met both of the following conditions for the tax year.
 - a. More than half of the personal services the partner performed in trades or businesses were performed in real property trades or businesses in which the partner materially participated.
 - b. The partner performed more than 750 hours of services in real property trades or businesses in which the partner materially participated.

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

For purposes of this rule, each interest in rental real estate is a separate activity, unless the partner elects to treat all interests in rental real estate as one activity.

If the partner is married filing jointly, either the partner or the partner's spouse must separately meet both of the above conditions, without taking into account services performed by the other spouse.

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

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

4. The rental of a dwelling unit used by a partner for personal purposes during the year for more than the greater of 14 days or 10% of the number of days that the residence was rented at fair rental value.
5. An activity of trading personal property for the account of owners of interests in the activity. For purposes of this rule, "personal property" means property that is actively traded, such as stocks, bonds, and other securities. See Temporary Regulations section 1.469-1T(e)(6).

Trade or Business Activities

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

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

If the partner doesn't materially participate in the activity, a trade or business activity conducted through a partnership is generally a passive activity of the partner.

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

Rental Activities

Generally, except as noted below, if the gross income from an activity consists of amounts paid principally for the use of real or personal tangible property held by the partnership, the activity is a rental activity.

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

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

In addition, a guaranteed payment described in section 707(c) is never income from a rental activity.

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

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

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

The following services aren't considered in determining whether personal services are significant.

- Services necessary to permit the lawful use of the rental property.
- Services performed in connection with improvements or repairs to the rental property that extend the useful life of the property substantially beyond the average rental period.
- Services provided in connection with the use of any improved real property that are similar to those commonly provided in connection with long-term rentals of high-grade commercial or residential property. Examples include cleaning and maintenance of common areas, routine repairs, trash collection, elevator service, and security at entrances.

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

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

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

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

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

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

- The partnership owns an interest in the trade or business at all times during the year.
- The rental property was mainly used in the trade or business activity during the tax year or during at least 2 of the 5 preceding tax years.

- The gross rental income from the property for the tax year is less than 2% of the smaller of the property's unadjusted basis or its FMV.

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

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

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

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

Report rental real estate activity income (loss) on Form 8825 and Schedule K, line 2, and in box 2 of Schedule K-1, rather than on page 1 of Form 1065. Report credits related to rental real estate activities on Schedule K, lines 15c and 15d (box 15, codes E and F, of Schedule K-1), and low-income housing credits on Schedule K, lines 15a and 15b (box 15, codes C and D, of Schedule K-1).

See [Line 3. Other Net Rental Income \(Loss\)](#), later, for reporting other net rental income (loss) other than rental real estate.

Portfolio Income

Generally, portfolio income includes all gross income, other than income derived in the ordinary course of a trade or business, that is attributable to interest; dividends; royalties; income from a real estate investment trust (REIT), a regulated investment company (RIC), a REMIC, a common trust fund, a CFC, a QEF, or a cooperative; income from the disposition of property that produces income of a type defined as portfolio income; and income from the disposition of property held for investment. See [Self-Charged Interest](#), later, for an exception.

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

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

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

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

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

Self-Charged Interest

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

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

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

Grouping Activities

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

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

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

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

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

The IRS may regroup the partnership's activities if the partnership's grouping fails to reflect one or more appropriate

economic units and one of the primary purposes of the grouping is to avoid the passive activity limitations.

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

1. A rental activity with a trade or business activity unless the activities being grouped together make up an appropriate economic unit and:
 - a. The rental activity is insubstantial relative to the trade or business activity or vice versa, or
 - b. Each owner of the trade or business activity has the same proportionate ownership interest in the rental activity. If so, the portion of the rental activity involving the rental of property to be used in the trade or business activity can be grouped with the trade or business activity.
2. An activity involving the rental of real property with an activity involving the rental of personal property (except personal property provided in connection with the real property or vice versa).
3. Any activity with another activity in a different type of business and in which the partnership holds an interest as a limited partner or as a limited entrepreneur (as defined in section 461(k)(4)) if that other activity engages in holding, producing, or distributing motion picture films or videotapes; farming; leasing section 1245 property; or exploring for or exploiting oil and gas resources or geothermal deposits.

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

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

A partner can't treat as separate activities those activities grouped together by a partnership.

If you group your activities under these rules for section 469 purposes, check the appropriate box in item K below the name and address block on page 1 of Form 1065.

Recharacterization of Passive Income

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

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

The amount of income from the activities in the first three paragraphs below that any partner will be required to recharacterize as nonpassive income may be limited under Temporary Regulations section 1.469-2T(f)(8). Because the partnership won't have information regarding all of a partner's activities, it must identify all partnership activities meeting the definitions under *Certain nondepreciable rental property activities* and *Passive equity-financed lending activities* below as activities that may be subject to recharacterization.

Income from the following six sources is subject to recharacterization.

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

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

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

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

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

Because the partnership can't determine a partner's level of participation, the partnership must identify net income from property described earlier under *Rental Activities* (without regard to the partner's level of participation) as income that may be subject to recharacterization.

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

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

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

Passive Activity Reporting Requirements

To allow partners to correctly apply the passive activity loss and credit limitation rules, the partnership must do the following.

1. If the partnership carries on more than one activity, provide an attached statement for each activity conducted through the partnership that identifies the type of activity conducted (trade or business, rental real estate, or rental activity other than rental real estate). See [Grouping Activities](#), earlier.
2. On the attached statement for each activity, provide a statement, using the same box numbers as shown on Schedule K-1, detailing the net income (loss), credits, and all items required to be separately stated under section 702(a) from each trade or business activity, from each rental real estate activity, from each rental activity other than a rental real estate activity, and from investments. If the partnership grouped separate activities, the attachments must identify each group. The attached group activity description must be sufficient for a partner to determine if its other activities qualify to be grouped with any groups provided by the partnership.
3. Identify the net income (loss) and credits from each oil or gas well drilled or operated under a working interest that any partner (other than a partner whose only interest in the partnership during the year is as a limited partner) holds through the partnership. Further, if any partner had an interest as a general partner in the partnership during less than the entire year, the partnership must identify both the disqualified deductions from each well that the partner must treat as passive activity deductions, and the ratable portion of the gross income from each well that the partner must treat as passive activity gross income.
4. Identify the net income (loss) and the partner's share of partnership interest expense from each activity of renting a dwelling unit that any partner uses for personal purposes during the year for more than the greater of 14 days or 10% of the number of days that the residence is rented at fair rental value.
5. Identify the net income (loss) and the partner's share of partnership interest expense from each activity of trading personal property conducted through the partnership.
6. For any gain (loss) from the disposition of an interest in an activity or of an interest in property used in an activity (including dispositions before 1987 from which gain is being recognized after 1986):
 - a. Identify the activity in which the property was used at the time of disposition;
 - b. If the property was used in more than one activity during the 12 months preceding the disposition, identify the activities in which the property was used and the adjusted basis allocated to each activity; and
 - c. For gains only, if the property was substantially appreciated at the time of the disposition and the applicable holding period specified in Regulations section 1.469-2(c)(2)(iii)(A) wasn't satisfied, identify the amount of the nonpassive gain and indicate whether the gain is investment income under Regulations section 1.469-2(c)(2)(iii)(F).
7. Specify the amount of gross portfolio income, the interest expense properly allocable to portfolio income, and expenses other than interest expense that are clearly and directly allocable to portfolio income.
8. Identify separately any of the following types of payments to partners.
 - a. Payments to a partner for services other than in the partner's capacity as a partner under section 707(a).
 - b. Guaranteed payments to a partner for services under section 707(c).

- c. Guaranteed payments for use of capital.
 - d. If section 736(a)(2) payments are made for unrealized receivables or for goodwill, the amount of the payments and the activities to which the payments are attributable.
 - e. If section 736(b) payments are made, the amount of the payments and the activities to which the payments are attributable.
9. Identify the ratable portion of any section 481 adjustment (whether a net positive or a net negative adjustment) allocable to each partnership activity.
 10. Identify the amount of gross income from each oil or gas property of the partnership.
 11. Identify any gross income from sources specifically excluded from passive activity gross income, including:
 - a. Income from intangible property if the partner is an individual whose personal efforts significantly contributed to the creation of the property;
 - b. Income from state, local, or foreign income tax refunds; and
 - c. Income from a covenant not to compete if the partner is an individual who contributed the covenant to the partnership.
 12. Identify any deductions that aren't passive activity deductions.
 13. If the partnership makes a full or partial disposition of its interest in another entity, identify the gain (loss) allocable to each activity conducted through the entity, and the gain allocable to a passive activity that would have been recharacterized as nonpassive gain had the partnership disposed of its interest in property used in the activity (because the property was substantially appreciated at the time of the disposition, and the gain represented more than 10% of the partner's total gain from the disposition).
 14. Identify the following items from activities that may be subject to the recharacterization rules. See [Recharacterization of Passive Income](#), earlier.
 - a. Net income from an activity of renting substantially nondepreciable property.
 - b. The smaller of equity-financed interest income or net passive income from an equity-financed lending activity.
 - c. Net rental activity income from property developed (by the partner or the partnership), rented, and sold within 12 months after the rental of the property commenced.
 - d. Net rental activity income from the rental of property by the partnership to a trade or business activity in which the partner had an interest (either directly or indirectly).
 - e. Net royalty income from intangible property if the partner acquired the partner's interest in the partnership after the partnership created the intangible property or performed substantial services, or incurred substantial costs in developing or marketing the intangible property.
 15. Identify separately the credits from each activity conducted by or through the partnership.
 16. Identify the partner's distributive share of the partnership's self-charged interest income or expense (see [Self-Charged Interest](#), earlier).
 - a. Loans between a partner and the partnership. Identify the lending or borrowing partner's share of the self-charged interest income or expense. If the partner made the loan to the partnership, also identify the activity in which the loan proceeds were used. If the

proceeds were used in more than one activity, allocate the interest to each activity based on the amount of the proceeds used in each activity.

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

Net Investment Income Tax (NIIT) Reporting Requirements

The information described in this section should be given directly to the partner and shouldn't be reported by the partnership to the IRS.

To allow partners to correctly figure the NIIT where a partner disposes of an interest in the partnership during the tax year, the partnership may be required to provide the partner with certain information. The NIIT is a tax imposed on an individual's, trust's, or estate's net investment income. Net investment income includes the net gains or losses from the sale of an interest in the partnership. A partner who is actively involved in one or more of the partnership's or lower-tier pass-through entities' trades or businesses (other than trading in financial instruments or commodities) can reduce the amount of the gain or loss from the sale of the partnership or lower-tier pass-through entity interest included in its net investment income. However, to figure its net investment income, the active partner needs certain information from the partnership.

Generally, the partnership must provide certain information to the partner if the partnership knows, or has reason to know, the following.

- The partner disposed of an interest in the partnership.
- The partner materially participates (within the meaning of the passive activity loss rules (section 469)) in one or more of the trades or businesses (within the meaning of section 162) of the partnership or a lower-tier pass-through entity (other than trading in financial instruments or commodities).
- The partner doesn't qualify for the optional simplified reporting method for figuring its net investment income associated with the disposition of the interest. For more information, see the instructions for Form 8960, line 5c.

Information to be provided to partner. Generally, the partnership must provide the partner with its distributive share of the net gain and loss from the deemed sale for FMV of the partnership's property, other than property that relates to the trades or businesses in which the partner materially participates, as determined under the passive activity loss rules applicable to the transfer of an interest in a pass-through entity. For more information, see the instructions for Form 8960, line 5c.

Specific Instructions

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

Fill in all applicable lines and schedules.

Enter any items specially allocated to the partners in the appropriate box of the applicable partner's Schedule K-1. Enter the total amount on the appropriate line of Schedule K. Don't

enter separately stated amounts on the numbered lines on Form 1065; Form 1125-A, page 1; or Schedule D (Form 1065).

File all six pages of Form 1065. However, if the answer to Schedule B, question 4, is “Yes,” Schedules L, M-1, and M-2 on page 6 are optional. Also attach a Schedule K-1 to Form 1065 for each partner.

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

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

Tip: A foreign partnership required to file a return must generally report all of its foreign and U.S. partnership items. For rules regarding whether a foreign partnership must file Form 1065, see [Who Must File](#), earlier.

Name and Address

Enter the legal name of the partnership, address, and EIN on the appropriate lines. If the partnership has changed its name, check box G(3). Include the suite, room, or other unit number after the street address. If the post office doesn’t deliver mail to the street address and the partnership has a P.O. box, show the box number instead.

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

If the partnership’s address is outside the United States or U.S. territories, enter the information on the lines for “City or town,” “State or province,” “Country,” and “ZIP or foreign postal code” in the following order: city, province or state, and the foreign country. Follow the foreign country’s practice in placing the postal code in the address. Don’t abbreviate the country name.

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

Tip: If the partnership changes its mailing address or the responsible party after filing its return, it can notify the IRS by filing Form 8822-B, Change of Address or Responsible Party—Business.

Partnerships With Adjustments in the Current Year That Didn’t Result in an IU

If a partnership has an adjustment from a BBA audit which doesn’t result in an IU, the partnership shouldn’t take the adjustment into account until the adjustment year (see [Definitions](#), earlier). With its Form 1065 for the adjustment year, the partnership should provide a statement describing the adjustments, including the line numbers to which the adjustments relate, and incorporate those adjustments into its adjustment year return. If there’s a reallocation adjustment being reported on the adjustment year return, ensure the statement identifies the partner receiving the reallocation adjustment. If there’s an adjustment to a separately stated item or to a credit, the partnership must adjust that item or that credit in the adjustment year. See Examples 1 and 2 in Regulations section 301.6225-3.

Items A and C

Enter the applicable activity name and the code number from the list, *Codes for Principal Business Activity and Principal Product or Service*, near the end of these instructions.

For example, if, as its principal business activity, the partnership (a) purchases raw materials, (b) subcontracts out for labor to make a finished product from the raw materials, and (c) retains title to the goods, the partnership is considered to be a manufacturer and must enter “Manufacturer” in item A and enter in item C one of the codes (311110 through 339900) listed under “Manufacturing” on the list, *Codes for Principal Business Activity and Principal Product or Service*, near the end of these instructions. For nonstore retailers, select the Principal Business Activity (PBA) code by the primary product that your establishment sells. For example, establishments primarily selling prescription and non-prescription drugs, select PBA code 456110 Pharmacies & Drug Retailers.

Item D. Employer Identification Number (EIN)

Show the correct EIN in item D. If the partnership doesn’t have an EIN, it must apply for one in one of the following ways.

- Online—Go to [IRS.gov/EIN](#). The EIN is issued immediately once the application information is validated.
- By mailing or faxing Form SS-4, Application for Employer Identification Number.

An LLC must determine which type of federal tax entity it will be (partnership, corporation, or disregarded entity (DE)) before applying for an EIN (see Form 8832 for details). If the partnership hasn’t received its EIN by the time the return is due, enter “Applied for” and the application date in the space for the EIN. For more details, see the Instructions for Form SS-4.

Note: The online application process isn’t yet available for partnerships with addresses in foreign countries. If you’re located outside the United States, call 267-941-1099.

Item F. Total Assets

You aren’t required to complete item F if the answer to Schedule B, question 4, is “Yes.”

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

Item J. Schedule C and Schedule M-3

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

- The amount of total assets at the end of the tax year reported in column (d) of Schedule L, line 14, is \$10 million or more.
- The amount of adjusted total assets for the tax year is \$10 million or more. “Adjusted total assets” is defined in the Instructions for Schedule M-3.
- The amount of total receipts (as defined later in the instructions for Schedule B, question 4) for the tax year is \$35 million or more.
- An entity that is a reportable entity partner of the partnership owns or is deemed to own, directly or indirectly, an interest of 50% or more in the partnership’s capital, profit, or loss on any day during the tax year of the partnership. “Reportable entity partner” is defined in the Instructions for Schedule M-3.

A partnership filing Form 1065 that isn’t required to file Schedule M-3 may voluntarily file Schedule M-3 instead of Schedule M-1.

Any partnership that files Schedule M-3 must also complete and file Schedule C (Form 1065), Additional Information for Schedule M-3 Filers. See *Eased requirements* next.

Eased requirements. Partnerships that (a) are required to file Schedule M-3 and have less than \$50 million in total assets

at tax-year-end, or (b) aren't required to file Schedule M-3 and voluntarily file Schedule M-3, must either (i) complete Schedule M-3 entirely, or (ii) complete Schedule M-3 through Part I and complete Schedule M-1 instead of completing Parts II and III of Schedule M-3.

In addition, partnerships that meet the requirements of (a) and (b) above aren't required to file Schedule C (Form 1065) or Form 8916-A.

See the instructions for Schedule C and Schedule M-3 for more information.

Income

Caution: Report only trade or business activity income on lines 1a through 8. Don't report rental activity income or portfolio income on these lines. See [Passive Activity Limitations](#), earlier, for definitions of "rental activity income" and "portfolio income." Rental activity income and portfolio income are reported on Schedules K and K-1. Rental real estate activities are also reported on Form 8825.

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

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

See [Deductions](#), later, for information on how to report expenses related to tax-exempt income.

Line 1a. Gross Receipts or Sales

Enter on line 1a gross receipts or sales from all trade or business operations, except for amounts that must be reported on lines 4 through 7. If a cost offset method under section 451(b) or (c) is used, the resulting gross income is reported on line 1a.

Special rules apply to certain income, as discussed below. For example, don't include gross receipts from farming on line 1a. Instead, show the net profit (loss) from farming on line 5. Also, don't include on line 1a rental activity income or portfolio income.

In general, advance payments are reported in the year of receipt. For exceptions to this general rule for partnerships that use the accrual method of accounting, see the following.

- To report income from long-term contracts, see section 460.
- For permissible methods that allow a limited deferral of advance payments beyond the current tax year, see section 451(c) and Regulations section 1.451-8.
- For information on adopting or changing to a permissible method for reporting advance payment for goods and services by an accrual-method partnership, see the Instructions for Form 3115.

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

- Personal property by a person who regularly sells or otherwise disposes of personal property of the same type on the installment plan, or
- Real property held for sale to customers in the ordinary course of the taxpayer's trade or business.

Exception. These restrictions on using the installment method don't apply to dispositions of property used or produced in a farming business or sales of timeshares and residential lots. However, if the partnership elects to report dealer dispositions of

timeshares and residential lots on the installment method, each partner's tax liability must be increased by the partner's distributive share of the interest payable under section 453(l)(3).

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

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

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

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

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

Line 2. Cost of Goods Sold

If the partnership has a cost of goods sold deduction, complete and attach Form 1125-A. Enter on Form 1065, page 1, line 2, the amount from Form 1125-A, line 8. See Form 1125-A and its instructions.

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

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

Don't include portfolio income or rental activity income (loss) from other partnerships, estates, or trusts on this line. Instead, report these amounts on Schedules K and K-1, or on Form 8825, line 22a, if the amount is from a rental real estate activity.

Ordinary income (loss) from another partnership that is a PTP isn't reported on this line. Instead, report the amount separately on Schedule K, line 11, and in box 11 of Schedule K-1 using code ZZ.

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

If there's a loss from another partnership, the amount of the loss that may be claimed is subject to the basis limitations as appropriate.

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

Line 5. Net Farm Profit (Loss)

Enter the partnership's net farm profit (loss) from Schedule F (Form 1040). Attach Schedule F (Form 1040) to Form 1065. Don't include on this line any farm profit (loss) from other partnerships. Report those amounts on line 4. In figuring the

partnership's net farm profit (loss), don't include any section 179 expense deduction; this amount must be separately stated.

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

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

Tip: Because the partner, and not the partnership, makes the election to deduct the expenses of raising any plant with a preproductive period of more than 2 years, farm partnerships that aren't required to use an accrual method shouldn't capitalize such expenses. Instead, state them separately on an attached statement to Schedule K, line 13e, and in box 13 of Schedule K-1 using code P. See section 263A(d) for more information.

Line 6. Net Gain (Loss) From Form 4797

Caution: Include only ordinary gains or losses from the sale, exchange, or involuntary conversion of assets used in a trade or business activity. Ordinary gains or losses from the sale, exchange, or involuntary conversion of rental activity assets are reported separately on Form 8825, line 21, or Schedule K, line 3c, and in box 3 of Schedule K-1, generally as a part of the net income (loss) from the rental activity.

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

Partnerships shouldn't use Form 4797 to report the sale or other disposition of property if a section 179 expense deduction was previously passed through to any of its partners for that property. Instead, report it in box 20 of Schedule K-1 using code L. See [Dispositions of property with section 179 deductions \(code L\)](#), later, for details.

Line 7. Other Income (Loss)

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

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

Don't include items requiring separate computations that must be reported on Schedules K and K-1. See the instructions for Schedules K and K-1, later.

Don't report portfolio or rental activity income (loss) on this line.

Deductions

Caution: Report only trade or business activity deductions on lines 9 through 21.

- Don't report the following expenses on lines 9 through 21.
- Rental activity expenses. Report these expenses on Form 8825 or Schedule K, line 3b.
 - Deductions allocable to portfolio income. Report these deductions on Schedule K, line 13e, and in box 13 of Schedule K-1 using code I or L.
 - Nondeductible expenses (for example, expenses connected with the production of tax-exempt income). Report nondeductible expenses on Schedule K, line 18c, and in box 18 of Schedule K-1 using code C.
 - Qualified expenditures to which an election under section 59(e) may apply. The instructions for Schedule K, line 13d, and for box 13, code J, of Schedule K-1 explain how to report these amounts.
 - Items the partnership must state separately that require separate computations by the partners. Examples include expenses incurred for the production of income instead of in a trade or business, charitable contributions, foreign taxes paid or accrued, intangible drilling and development costs, soil and water conservation expenditures, amortizable basis of reforestation expenditures, and exploration expenditures. The distributive shares of these expenses are reported separately to each partner on Schedule K-1.

Limitations on Deductions

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

- The production of real property and tangible personal property held in inventory or held for sale in the ordinary course of business.
- Real property or personal property (tangible and intangible) acquired for resale.
- The production of real property and tangible personal property by a partnership for use in its trade or business or in an activity engaged in for profit.

Tangible personal property produced by a partnership includes a film, sound recording, videotape, book, or similar property.

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

Exceptions. For tax years beginning after 2017, a small business taxpayer, defined earlier, can adopt or change its method of accounting to not capitalize costs under section 263A. See section 263A(i) and [Accounting Methods](#), earlier.

Section 263A doesn't apply to the following.

- Timber.
- Most property produced under a long-term contract.
- Certain property produced in a farming business. See the note at the end of the instructions for line 5, earlier.
- Geological and geophysical costs amortized under section 167(h).
- Certain plants bearing fruits and nuts under section 168(k)(5).

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

- R&E costs under section 174A.
- Intangible drilling costs for oil, gas, and geothermal property.
- Mining exploration and development costs.

Indirect costs. Partnerships subject to the uniform capitalization rules are required to capitalize not only direct costs but an allocable part of most indirect costs (including taxes) that benefit the assets produced or acquired for resale, or are incurred because of the performance of production or resale activities.

For inventory, indirect costs that must be capitalized include the following.

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

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

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

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

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

Business interest. Business interest expense (BIE) is limited for tax years beginning after 2017. See section 163(j) for limitations on deductions for business interest, and section 163(j)(4) for rules specific to partnerships.

Business startup and organizational costs. Generally, a partnership can elect to deduct a limited amount of startup or organizational costs paid or incurred. Any costs not deducted must be amortized as explained below. See sections 195(b) and 709(b).

Time for making an election. The partnership generally elects to deduct startup or organizational costs by claiming the deduction on its return filed by the due date (including extensions) for the tax year in which the active trade or business begins.

If the partnership timely filed its return for the year without making an election, it can still make an election by filing an amended return within 6 months of the due date of the return (excluding extensions). Clearly indicate the election on the amended return and enter "Filed pursuant to section 301.9100-2" at the top of the amended return. File the amended return at the same address the partnership filed its original return. The election applies when figuring income for the current tax year and all subsequent years.

The partnership can choose to forgo the above elections by clearly electing to capitalize its startup or organizational costs on its return filed by the due date (including extensions) for the tax year in which the active trade or business begins.

The election to either amortize or capitalize startup or organizational costs is irrevocable and applies to all startup and organizational costs that are related to the trade or business.

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

Report the deductible amount of these costs and any amortization on line 21. For amortization that began during the tax year, complete and attach Form 4562, Depreciation and Amortization.

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

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

- Work opportunity credit.
- Credit for increasing research activities.
- Disabled access credit.
- Empowerment zone employment credit, if applicable.
- Credit for employer social security and Medicare taxes paid on certain employee tips.
- Orphan drug credit.
- Small employer pension plan startup costs and employer contributions credit.
- Credit for employer-provided childcare facilities and services.
- Low sulfur diesel fuel production credit.
- Credit for employer differential wage payments.
- Credit for small employer health insurance premiums.
- Employer credit for paid family and medical leave (Form 8994).

Note: Wages taken into account in determining the credit for qualified sick and family leave on Form 941 can't be taken into account in determining the employer credit for paid family and medical leave on Form 8994. See the Instructions for Form 8994.

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

Line 9. Salaries and Wages

Enter the salaries and wages paid or incurred for the tax year, reduced by the amount of the following credit(s).

- Work Opportunity Credit (Form 5884).
- Empowerment Zone Employment Credit (Form 8844), if applicable.
- Credit for Employer Differential Wage Payments (Form 8932).

Don't reduce the amount of the allowable deduction for any portion of the credit that was passed through to the partnership from another pass-through entity. See the instructions for the credit form for more information.

Don't include salaries and wages reported elsewhere on the return, such as amounts included in cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction simplified employee pension (SEP) agreement or a Savings Incentive Match Plan for Employees (SIMPLE) IRA plan.

Line 10. Guaranteed Payments to Partners

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

partner, a partner's spouse, a partner's dependents, or a partner's children under age 27 who aren't dependents.

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

Don't include any payments and credits that should be capitalized. For example, although payments or credits to a partner for services rendered in syndicating a partnership may be guaranteed payments, they aren't deductible on line 10. They are capital expenditures. However, they should be reported as guaranteed payments on the applicable line of Schedule K, line 4b, and in box 4b of Schedule K-1.

Don't include distributive shares of partnership profits.

Report the guaranteed payments to the appropriate partners using the applicable box 4 of Schedule K-1.

Line 11. Repairs and Maintenance

Enter the cost of repairs and maintenance not claimed elsewhere on the return, such as labor and supplies, that aren't payments for improvements to the partnership's property. Amounts are paid for improvements if they're for betterments to the property or for restorations of the property (such as the replacements of major components or substantial structural parts), or if they adapt the property to a new or different use. Improvements must be capitalized. See Regulations section 1.263(a)-3.

The partnership can deduct repair and maintenance expenses only to the extent they relate to a trade or business activity. See Regulations section 1.162-4. The partnership may elect to capitalize certain repair and maintenance costs consistent with its books and records. See Regulations section 1.263(a)-3(n) for information on how to make the election.

Line 12. Bad Debts

Enter the total debts that became worthless in whole or in part during the year, but only to the extent such debts relate to a trade or business activity. Report deductible nonbusiness bad debts as a short-term capital loss on Form 8949.

Caution: Partnerships can't take a bad debt deduction unless the amount was previously included in income.

Line 13. Rent

Enter rent paid on business property used in a trade or business activity. Don't deduct rent for a dwelling unit occupied by any partner for personal use.

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

The lease term began: **And the vehicle's FMV on the first day of the lease exceeded:**

Automobiles other than trucks and vans

During calendar year 2025	\$64,000
During calendar year 2024	\$62,000
During calendar year 2023	\$60,000
During calendar year 2022	\$56,000
During calendar year 2021	\$51,000
After 12/31/2017 but before 1/1/2021	\$50,000
After 12/31/12 and before 1/1/18	\$19,000
After 12/31/09 but before 1/1/13	\$18,500

Trucks and vans

During calendar year 2025	\$64,000
During calendar year 2024	\$62,000
During calendar year 2023	\$60,000
During calendar year 2022	\$56,000
During calendar year 2021	\$51,000
After 12/31/2017 but before 1/1/2021	\$50,000
After 12/31/13 and before 1/1/18	\$19,500
After 12/31/09 and before 1/1/14	\$19,000

The inclusion amount for lease terms beginning in 2026 will be published in the Internal Revenue Bulletin in early 2026.

See Pub. 463, Travel, Gift, and Car Expenses, for instructions on figuring the inclusion amount.

Line 14. Taxes and Licenses

Enter taxes and licenses paid or incurred in the trade or business activities of the partnership if not reflected elsewhere on the return. Federal import duties and federal excise and stamp taxes are deductible only if paid or incurred in carrying on the trade or business of the partnership. Foreign taxes are included on line 14 only if they are taxes not creditable but deductible under sections 901 and 903. See column (g) of Schedule K-2, Part II, Section 2, line 45.

Don't deduct the following taxes on line 14.

- Taxes not imposed on the partnership.
- Federal income taxes or taxes reported elsewhere on the return.
- Creditable foreign taxes under sections 901 and 903. Report these taxes separately on Schedule K, line 21, and in box 21 of Schedule K-1.
- Taxes allocable to a rental activity. Report taxes allocable to rental real estate activity on Form 8825. Report taxes allocable to a rental activity other than a rental real estate activity on Schedule K, line 3b.
- Taxes paid or incurred for the production or collection of income, or for the management, conservation, or maintenance of property held to produce income. Report these taxes separately on Schedule K, line 13e, and in box 13 of Schedule K-1 using code ZZ.

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

- Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (these taxes must be treated as a part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition).
- Taxes assessed against local benefits that increase the value of the property assessed (such as for paving, etc.).

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

Line 15. Interest

Include only interest incurred in the trade or business activities of the partnership that isn't claimed elsewhere on the return.

Don't include interest expense on the following.

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

Special rules apply to the following.

- Allocating interest expense among activities so that the limitations on passive activity losses, investment interest, and personal interest can be properly figured. Generally, interest expense is allocated in the same manner as debt is allocated. Debt is allocated by tracing disbursements of the debt proceeds to specific expenditures. Temporary Regulations section 1.163-8T gives rules for tracing debt proceeds to expenditures. Also see Proposed Regulations 1.163-14 for a special rule for allocating interest expense with respect to pass-through entities.
- Interest paid by a partnership to a partner for the use of capital, which should be entered on line 10 as guaranteed payments.
- Prepaid interest, which can generally only be deducted over the term of the debt. See section 461(g) and Regulations sections 1.163-7, 1.446-2, and 1.1273-2(g) for details.
- Interest that is allocable to unborrowed policy cash values of life insurance, endowment, or annuity contracts issued after June 8, 1997, when the partnership is a policyholder or beneficiary. See section 264(f). Attach a statement showing the computation of the deduction.

Limitation on deduction. Business interest expense deduction is generally limited to the sum of business interest income, 30% of the adjusted taxable income (ATI), and floor plan financing interest. This limitation generally applies at the partnership level. See section 163(j)(4) for additional information about the application of the business interest expense limitation to partnerships. See Form 8990, Limitation on Business Interest Expense Under Section 163(j), and its instructions for more information. BIE includes any interest expense properly allocable to a trade or business. A small business taxpayer that isn't a tax shelter (as defined in section 448(d)(3)) and that meets the gross receipts test isn't required to limit BIE under section 163(j). A taxpayer meets the gross receipts test if the taxpayer has average annual gross receipts of \$31 million or less for the 3 prior tax years under the gross receipts test of section 448(c). Gross receipts include the aggregate gross receipts from all persons treated as a single employer such as a controlled group of corporations, commonly controlled partnerships or proprietorships, and affiliated service groups. If the partnership fails to meet the gross receipts test, Form 8990 is generally required. Also see Schedule B, questions 23 and 24.

Line 16. Depreciation

On line 16a, enter only the depreciation claimed on assets used in a trade or business activity. Enter on line 16b the depreciation included elsewhere on the return (for example, on page 1, line 2) that is attributable to assets used in trade or business activities. See the Instructions for Form 4562, or Pub. 946, How To Depreciate Property, to figure the amount of depreciation to enter on this line.

Complete and attach Form 4562 only if the partnership placed property in service during the tax year or claims depreciation on any car or other listed property.

Don't include any section 179 expense deduction on this line. This amount isn't deducted by the partnership. Instead, it's passed through to the partners in box 12 of Schedule K-1. Generally, the basis of a partnership's section 179 property must be reduced to reflect the amount of section 179 expense elected by the partnership. This reduction must be made in the basis of partnership property even if the limitations of section 179(b) and Regulations section 1.179-2 prevent a partner from deducting all or a portion of the amount of the section 179 expense allocated by the partnership.

Line 17. Depletion

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

Caution: Don't deduct depletion for oil and gas properties. Each partner figures depletion on oil and gas properties. See the instructions for Schedule K-1, box 20, [Code T. Depletion information—oil and gas](#), for the information on oil and gas depletion that must be supplied to the partners by the partnership.

Line 18. Retirement Plans, etc.

Don't deduct payments for partners to retirement or deferred compensation plans, including IRAs, qualified plans, and SEP and SIMPLE IRA plans, on this line. These amounts are reported in box 13 of Schedule K-1 using code R and are deducted by the partners on their own returns.

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

If the partnership contributes to an IRA for employees, include the contribution in salaries and wages on page 1, line 9, or Form 1125-A, line 3, and not on line 18.

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

- Form 5500, Annual Return/Report of Employee Benefit Plan.
- Form 5500-SF, Short Form Annual Return/Report of Small Employee Benefit Plan (generally filed instead of Form 5500 if there are under 100 participants at the beginning of the plan year).

Tip: Form 5500 and Form 5500-SF must be filed electronically under the computerized ERISA Filing Acceptance System (EFAST2). For more information, see the EFAST2 website at [EFAST.dol.gov](https://efast.dol.gov).

- Form 5500-EZ, Annual Return of A One-Participant (Owners/Partners and Their Spouses) Retirement Plan or A Foreign Plan. File this form for a plan that only covers one or more partners (or partners and their spouses) or a foreign plan that is required to file an annual return and doesn't file the annual return electronically on Form 5500-SF.

Line 19. Employee Benefit Programs

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

Don't include amounts paid during the tax year for insurance that constitutes medical care for a partner, a partner's spouse, a partner's dependents, or a partner's children under age 27 who aren't dependents. Instead, include these amounts on line 10 as guaranteed payments on the applicable line of Schedule K, line 4, and the applicable line of box 4 of Schedule K-1, of each partner on whose behalf the amounts were paid. Also report these amounts on Schedule K, line 13e, and in box 13 of Schedule K-1, using code M, of each partner on whose behalf the amounts were paid.

Line 20. Energy Efficient Commercial Building Deduction

Deduction for certain energy efficient commercial building property. See the Instructions for Form 7205 and section 179D for more information. Complete and attach Form 7205 if claiming this deduction.

Line 21. Other Deductions

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

- Amortization. See the Instructions for Form 4562 for more information. Complete and attach Form 4562 if the partnership is claiming amortization of costs that began during the tax year.
- Insurance premiums.
- Legal and professional fees.
- Supplies used and consumed in the business.
- Utilities.
- Certain business startup and organizational costs. See [Limitations on Deductions](#), earlier, for more details.
- Any net negative section 481(a) adjustment.

Also see [Special Rules](#), later.

Don't deduct the following on line 21.

- Items that must be reported separately on Schedules K and K-1.
- Fines or similar penalties. Generally, no deduction is allowed for fines or similar penalties paid or incurred to or at the direction of a government or governmental entity for violating any law except amounts that constitute restitution (including remediation of property), amounts paid or incurred to come into compliance with the law, amounts paid or incurred as the result of orders or agreements in which no government or governmental entity is a party, and amounts paid or incurred for taxes due to the extent the amount would have been allowed as a deduction if timely paid. No deduction is allowed unless the amounts are specifically identified in the order or agreement and the taxpayer establishes that the amounts were paid for that purpose. Also, any amount paid or incurred as reimbursement to the government for the costs of any investigation or litigation aren't eligible for the exceptions and are nondeductible. See section 162(f). Report nondeductible amounts on Schedule K, line 18c.
- Expenses allocable to tax-exempt income. Report these expenses on Schedule K, line 18c.
- Net operating losses. Only individuals and corporations may claim a net operating loss deduction.
- Amounts paid or incurred to participate or intervene in any political campaign on behalf of a candidate for public office, or to influence the general public regarding legislative matters, elections, or referendums. Report these expenses on Schedule K, line 18c.
- Lobbying expenses. Generally, lobbying expenses aren't deductible. These expenses include amounts paid or incurred in connection with influencing federal, state, or local legislation; or amounts paid or incurred in connection with any communication with certain federal executive branch officials in an attempt to influence the official actions or positions of the officials. See Regulations section 1.162-29 for the definition of "influencing legislation." Dues and other similar amounts paid to certain tax-exempt organizations may not be deductible. If certain in-house lobbying expenditures don't exceed \$2,000, the general rule denying deductions for lobbying expenses doesn't apply to these amounts. See section 162(e)(4)(B).
- Amounts paid or incurred for any settlement or payout related to sexual harassment or sexual abuse that is subject to a nondisclosure agreement, as well as any attorney's fees related to the settlement or payout. See section 162(q).

Special Rules

Travel, meals, and entertainment. Subject to limitations and restrictions discussed below, a partnership can deduct ordinary and necessary travel and non-entertainment-related meal expenses paid or incurred in its trade or business. Generally, entertainment expenses, membership dues, and facilities used in connection with these activities can't be deducted. Also, special rules apply to deductions for gifts, luxury water travel, and convention expenses. See section 274 and Pub. 463 for details.

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

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

Meals. Generally, the partnership can deduct only 50% of the amount otherwise allowable for non-entertainment meal expenses paid or incurred in its trade or business.

Entertainment-related meals are generally disallowed. In addition (subject to exceptions under section 274(k)(2)):

- Meals must not be lavish or extravagant, and
- A partner or employee of the partnership must be present at the meal.

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

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

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

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

Reforestation expenditures. If the partnership made an election to deduct a portion of its reforestation expenditures on Schedule K, line 13e, it must amortize over an 84-month period the portion of these expenditures in excess of the amount deducted on Schedule K (see section 194). Deduct on line 21 only the amortization of these excess reforestation expenditures. See [Code S. Reforestation expense deduction](#), later.

Tax and Payment

The IRS recommends paying electronically whenever possible. Options to pay electronically include using your bank account at [IRS.gov/DirectPay](#), your debit or credit card, your digital wallet, or your IRS business account at [IRS.gov/BusinessAccount](#). Go to [IRS.gov/Payments](#) to see all your payment options.

Line 24. Interest due under the look-back method for completed long-term contracts. For partnerships that aren't closely held, attach Form 8697. If paying by check, make it payable to "United States Treasury." Enter the partnership's EIN, daytime phone number, and "Form 8697 Interest" on the check or money order.

Line 25. Interest due under the look-back method for property depreciated under the income forecast method. For partnerships that aren't closely held, attach Form 8866. If paying by check, make it payable to "United States Treasury." Enter the partnership's EIN, daytime phone number, and "Form 8866 Interest" on the check or money order.

Line 26. BBA AAR imputed underpayment. Use this line if the partnership is filing an AAR electronically and chooses to pay the IU. For instructions on how to figure the IU, see the Instructions for Form 8082. Included on line 26 are any payments for the IU, estimated interest and estimated penalties. See the Instructions for Form 8082 for attaching a separate schedule of the detail for the line 26 amount. If paying by check, enter the name of the partnership, TIN, tax year, "Form 1065," and "BBA AAR Imputed Underpayment" on the payment. Checks must be made payable to "United States Treasury" and mailed to Ogden

Service Center, Ogden, UT 84201-0011. If making an electronic payment, choose the payment description "BBA AAR Imputed Underpayment" from the list of payment types.

Line 27. Other taxes. In a few instances, payments other than those listed above may have to be made with Form 1065. Enter the amount on this line and attach a statement identifying the purpose of the payment. Payments should be made out to "United States Treasury" and mailed to Ogden Service Center, Ogden, UT 84201-0011. Payments can be made by check or electronically.

If a payment relates to the Prevailing Wage & Apprenticeship (PWA) penalty calculated on Form 7220 and reported in columns (o)(1) through (o)(3), and (p)(1) through (p)(3) of Form 4255, Part I, the payment should be made with Form 1065 for the tax year that the partnership claimed the credit to which the PWA penalty payment relates.

Line 29. Elective payment election amount from Form 3800. Report the gross elective payment election amount from column (h) of Form 3800, Part III, line 6.

Line 30. Payment. Enter any prepayments related to lines 24 through 27 above.

Line 31. Amount owed. The IRS recommends paying electronically whenever possible. Options to pay electronically include using your bank account at [IRS.gov/DirectPay](#), your debit or credit card, your digital wallet, or your IRS business account at [IRS.gov/BusinessAccount](#). Go to [IRS.gov/Payments](#) to see all your payment options.

Non-electronic payment option exceptions. If you qualify for one of the exceptions below, a check, money order, or cash may still be permitted as a payment option.

- Individuals who don't have access to U.S. banking services or electronic payment systems.
- Certain emergency payments where electronic disbursement would cause undue hardship, as contemplated in 31 C.F.R. Part 208.
- National security- or law enforcement-related activities where non-EFT transactions are necessary or desirable.
- Other circumstances as determined by the Secretary of the Treasury, as reflected in regulations or other guidance.

Paying by cash. You may be able to pay your balance due with cash at a participating retail store. Go to [IRS.gov/PayWithCash](#).

Schedule B. Other Information

Question 1

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

Maximum Percentage Owned for Purposes of Questions 2 and 3

To determine the maximum percentage owned in the partnership's profit, loss, or capital for the purposes of questions 2a, 2b, and 3b, determine separately the partner's percentage of interest in profit, loss, and capital at the end of the partnership's tax year. This determination must be based on the partnership agreement and it must be made using the constructive ownership rules described below. The maximum percentage is the highest of these three percentages (determined at the end of the tax year).

See [Item J. Partner's Profit, Loss, and Capital](#), later, for more information on ownership percentages.

Questions 2 and 3

Constructive ownership of the partnership. For purposes of question 2, except for foreign governments within the meaning of section 892, in determining an ownership interest in the profit, loss, or capital of the partnership, the constructive ownership rules of section 267(c) (excluding section 267(c)(3)) apply to ownership of interests in the partnership as well as corporate stock. An interest in the partnership that is owned directly or indirectly by or for another entity (corporation, partnership, estate, trust, or tax-exempt organization) is considered to be owned proportionately by the owners (shareholders, partners, or beneficiaries) of the owning entity.

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

For purposes of question 2, the term "foreign government" has the same meaning as it does under section 892. In determining a foreign government's ownership interest in the profit, loss, or capital of the partnership, the constructive ownership rules of Temporary Regulations section 1.892-5T(c) (1)(i) apply to ownership of interests in the partnership as well as corporate stock. An interest in the partnership that is owned directly or indirectly by an integral part or controlled entity of a foreign sovereign (within the meaning of Temporary Regulations section 1.892-2T(a)) is considered to be owned proportionately by such foreign sovereign.

Constructive ownership examples for questions 2 and 3 are included below. For the purposes of questions 2 and 3, add an owner's direct percentage ownership and indirect percentage ownership in an entity to determine if the owner owns, directly or indirectly, 50% or more of the entity.

Example for question 2a. Corporation A owns, directly, an interest of 50% in the profit, loss, or capital of Partnership B. Corporation A also owns, directly, an interest of 15% in the profit, loss, or capital of Partnership C. Partnership B owns, directly, an interest of 70% in the profit, loss, or capital of Partnership C. Therefore, Corporation A owns, directly or indirectly, an interest of 50% in the profit, loss, or capital of Partnership C (15% directly and 35% indirectly through Partnership B). On Partnership C's Form 1065, it must answer "Yes" to question 2a of Schedule B. See *Example 1* in the instructions for Schedule B-1 (Form 1065) for guidance on providing the rest of the information required of entities answering "Yes" to this question.

Example for question 2b. A owns, directly, 50% of the profit, loss, or capital of Partnership X. B, the daughter of A, doesn't own, directly, any interest in Partnership X and doesn't own, indirectly, any interest in Partnership X through any entity (corporation, partnership, trust, or estate). Because family attribution rules apply only when an individual (in this example, B) owns a direct interest in the partnership or an indirect interest through another entity, A's interest in Partnership X isn't attributable to B. On Partnership X's Form 1065, it must answer "Yes" to question 2b of Schedule B. See *Example 2* in the instructions for Schedule B-1 (Form 1065) for guidance on providing the rest of the information required of entities answering "Yes" to this question.

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

Question 3a. List each corporation in which the partnership, at the end of the tax year, owns, directly, 20% or more, or owns, directly or indirectly, 50% or more, of the total voting power of all classes of stock entitled to vote. Indicate the name, EIN, country of incorporation, and percentage interest owned, directly or indirectly, in the total voting power. List the parent corporation of an affiliated group filing a consolidated tax return rather than the subsidiary members except for subsidiary members in which an interest is owned, directly or indirectly, independent of the interest owned, directly or indirectly, in the parent corporation. If a corporation is owned through a DE, list the information for the corporation rather than the DE.

Question 3b. List each partnership in which the partnership, at the end of the tax year, owns, directly, an interest of 20% or more, or owns, directly or indirectly, an interest of 50% or more, in the profit, loss, or capital of the partnership. List each trust in which the partnership, at the end of the tax year, owns, directly, an interest of 20% or more, or owns, directly or indirectly, an interest of 50% or more, in the trust beneficial interest. For each partnership or trust listed, indicate the name, EIN, type of entity (partnership or trust), and country of origin. If the listed entity is a partnership, enter in column (v) the maximum of percentage interests owned, directly or indirectly, in the profit, loss, or capital of the partnership at the end of the partnership's tax year. If the entity is a trust, enter in column (v) the percentage of the partnership's beneficial interest in the trust owned, directly or indirectly, at the end of the tax year. List a partnership or trust owned through a DE rather than the DE.

Question 4

Answer "Yes" if the partnership meets all four of the requirements shown on the form. "Total receipts" is defined as the sum of gross receipts or sales (page 1, line 1a); all other income (page 1, lines 4 through 7); income reported on Schedule K, lines 3a, 5, 6a, and 7; income or net gain reported on Schedule K, lines 8, 9a, 10, and 11; and income or net gain reported on Form 8825, lines 2, 21, and 22a. "Total assets" is defined as the amount that would be reported in item F on page 1 of Form 1065.

Question 5

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

Question 6

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

Question 7

Answer "Yes" if the partnership filed, or is required to file, a return under section 6111 to provide information on any reportable

transaction by a material advisor. Use Form 8918, Material Advisor Disclosure Statement, to provide the information. For details, see the Instructions for Form 8918.

Question 8

Answer “Yes” if either (1) or (2) below applies to the partnership. Otherwise, answer “No.”

- At any time during calendar year 2025, the partnership had an interest in or signature or other authority over a bank account, securities account, or other financial account in a foreign country (see FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR)); and
 - The combined value of the accounts was more than \$10,000 at any time during the calendar year; and
 - The accounts were not with a U.S. military banking facility operated by a U.S. financial institution.
- The partnership owns more than 50% of the stock in any corporation that would answer “Yes” based on item (1) above.

If “Yes,” do the following.

- Enter the name of the foreign country or countries. Attach a separate sheet if more space is needed.
- File FinCEN Form 114 electronically at the FinCEN website, [BSAefiling.fincen.gov](https://www.fincen.gov/BSAefiling.fincen.gov).

Question 9

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

- It directly or indirectly transferred property or money to a foreign trust. For this purpose, any U.S. person who created a foreign trust is considered a transferor.
- It's treated as the owner of any part of the assets of a foreign trust under the grantor trust rules.
- It received a distribution, a loan of cash or other marketable securities, or uncompensated use of trust property from a foreign trust, or a foreign trust holds an outstanding qualified obligation of the partnership.

For more information, see the Instructions for Form 3520.

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

Questions 10a, 10b, 10c, and 10d

Tip: You must answer “Yes” or “No” for each question.

Question 10a. Answer “Yes” if the partnership is making, or has made (and hasn't revoked), a section 754 election. For information about the election, see item 4 under [Elections Made by the Partnership](#), earlier.

Question 10b. Answer “Yes” if either of the following has occurred.

- The partnership made an optional basis adjustment under section 743(b) or 734(b) for the tax year.
- The partnership has made a section 754 election (and it hasn't been revoked) and a basis adjustment under section 743(b) is made on a sale or exchange of a partnership interest or a transfer of a partnership interest on the death of a partner. See question 10c if the partnership has a substantial built-in loss immediately after such a transfer.

For partnerships other than PTPs, enter the total aggregate positive amount (in the appropriate space provided) resulting from all section 743(b) adjustments. “Aggregate positive amount from all section 743(b) adjustments” means the increase in the

partners' shares of basis in partnership property from all section 743(b) adjustments allocated to all the partners. Enter the total aggregate negative amount (in the appropriate space provided) resulting from all section 743(b) adjustments. “Aggregate negative amount from all section 743(b) adjustments” means the decrease in the partners' shares of basis in partnership property from all section 743(b) adjustments allocated to all the partners.

Section 743(b) basis adjustment. The basis adjustment affects only the transferee's basis in partnership property. The partnership must attach a statement to the return for the tax year in which the transfer occurred. The statement must include:

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

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

Question 10c. Answer “Yes” if the partnership made an optional basis adjustment under section 734(b) for the tax year. If the partnership has made a section 754 election (and it hasn't been revoked), the partnership must make a basis adjustment under section 734(b). Enter the total aggregate positive amount and the total aggregate negative amount in the appropriate space provided. “Aggregate positive amount from all section 734(b) adjustments” means the increase in the basis of partnership property from all section 734(b) adjustments. Enter the total aggregate negative amount (in the appropriate space provided) resulting from all section 734(b) adjustments. “Aggregate negative amount from all section 734(b) adjustments” means the decrease in basis of partnership property from all section 734(b) adjustments.

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

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

Question 10d. Answer “Yes” if the partnership had to make a basis reduction under section 743(b) because of a substantial built-in loss (as defined in section 743(d)) or under section 734(b) because of a substantial basis reduction (as defined in section 734(d)).

Enter the total aggregate amount of such section 743(b) adjustments and/or section 734(b) adjustments for all partners and/or partnership property made in the tax year in the space provided as a positive number.

Section 743(d)(1) provides that, for purposes of section 743, a partnership has a substantial built-in loss resulting from a transfer of a partnership interest if the partnership's adjusted basis in the partnership's property exceeds by more than \$250,000 the FMV of the property or the transferee partner would be allocated a loss of more than \$250,000 if the partnership assets were sold for cash equal to their FMV immediately after such transfer. Under section 734(d), there's a substantial basis reduction resulting from a distribution if the sum of the following amounts exceeds \$250,000.

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

Section 734(b) basis adjustment. For a section 734(b) basis adjustment, for partnerships other than PTPs, attach a statement that includes:

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

Question 11

Check the box if the partnership engaged in a like-kind exchange during the current or immediately preceding tax year and received replacement property that it distributed during the current tax year. For purposes of this question, the partnership is considered to have distributed replacement property if the partnership contributed such property to any entity other than a DE. The distribution of its ownership interest in a DE is considered a distribution of the underlying property.

Question 12

If a partnership distributed property to its partners to be jointly owned, whether such distribution is direct or through the formation of an intermediate entity, the question must be answered “Yes.” For purposes of question 12, an “undivided interest in partnership property” means property that was owned by the partnership either directly or through a DE and which was distributed to partners as fractional ownership interests. A tenancy-in-common interest is a type of undivided ownership interest in property which provides each owner the right to transfer property to a third party without destroying the tenancy in common. Partners may agree to partition property held as tenants in common or may seek a court order to partition the property (usually dividing the property into fractional interests in accordance with each partner’s ownership interest in the partnership).

Example. Partnership P is a partnership that files Form 1065. Partnership P holds title to land held for investment. Partnership P converts its title to the land to fractional interests in the name of the partners and distributes such interests to its partners. Partnership P must answer “Yes” to question 12.

Questions 13a and 13b

Question 13a. Enter the number of Forms 8858, Information Return of U.S. Persons With Respect To Foreign Disregarded Entities (FDEs) and Foreign Branches (FBs), that are attached to the return. Form 8858 and its schedules are used by certain U.S. persons (including domestic partnerships) that own an FDE or FB directly (or, in certain cases, indirectly or constructively) to satisfy the reporting requirements of sections 6011, 6012, 6031, and 6038, and the related regulations. See Form 8858 (and its separate instructions) for information on completing the form and the information that the partnership may need to provide to certain partners for them to complete their Forms 8858 relating to that FDE or FB.

Question 13b. Reserved for future use.

Question 14

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

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

Questions 16a and 16b

If the partnership made any payment in 2025 that would require the partnership to file any Form(s) 1099, answer “Yes” for question 16a and answer question 16b. Otherwise, answer “No” for question 16a and skip question 16b. Go to [IRS.gov/Businesses/Small-Businesses-Self-Employed/Am-I-required-to-file-a-Form-1099-or-other-information-return](https://www.irs.gov/Businesses/Small-Businesses-Self-Employed/Am-I-required-to-file-a-Form-1099-or-other-information-return) for more information.

Question 20

For tax years beginning after 2015, domestic partnerships that are formed or availed of to hold specified foreign financial assets (specified domestic entities) must file Form 8938, Statement of Specified Foreign Financial Assets, with its Form 1065 for the tax year. Form 8938 must be filed each year the value of the partnership’s specified foreign financial assets meets or exceeds the reporting threshold. For more information on domestic partnerships that are specified domestic entities and the types of foreign financial assets that must be reported, see the Instructions for Form 8938.

A domestic partnership required to file Form 8938 with its Form 1065 for the tax year should answer “Yes” to this question.

Question 22

Section 267A disallows a deduction for certain interest or royalty paid or accrued pursuant to a hybrid arrangement, to the extent that, under the foreign tax law, there isn’t a corresponding income inclusion (including long-term deferral). On the entry line for question 22, report the total amount of interest and royalty paid or accrued by the partnership for which the partnership knows, or has reason to know, that one or more partners’ distributive shares of deductions are disallowed under section 267A. For additional information, see FAQs at [IRS.gov/Businesses/Partnerships/FAQs-for-Form-1065-Schedule-B-Other-Information-Question-22](https://www.irs.gov/Businesses/Partnerships/FAQs-for-Form-1065-Schedule-B-Other-Information-Question-22).

Question 23

The limitation on BIE applies to every taxpayer with a trade or business, unless the taxpayer meets certain specified exceptions. A partnership may elect out of the limitation for certain businesses otherwise subject to the BIE limitation.

Certain real property trades or businesses and farming businesses qualify to make an election not to limit BIE. This is an irrevocable election. If you make this election, you’re required to use the alternative depreciation system to depreciate certain property. Also, you aren’t entitled to the special depreciation allowance for that property. For a partnership with more than one qualifying business, the election is made with respect to each business. Answer “Yes” if the partnership has an election in effect to exclude a real property trade or business or a farming business from section 163(j). For more information, see section 163(j) and the Instructions for Form 8990.

Question 24

Generally, a taxpayer with a trade or business must file Form 8990 to claim a deduction for business interest. BIE is interest that is properly allocable to a non-excepted trade or business or that is floor plan financing interest. In addition, Form 8990 must be filed by any taxpayer that owns an interest in a partnership with current-year, or prior-year carryover, excess business interest expense (EBIE) allocated from the partnership. A pass-through entity allocating excess taxable income or excess business interest income to its owners (that is, a pass-through entity that isn’t a small business taxpayer) must file Form 8990, regardless of whether it has any interest expense.

Exclusions from filing. A taxpayer isn’t required to file Form 8990 if the taxpayer is a small business taxpayer and doesn’t

have EBIE from a partnership. A taxpayer is also not required to file Form 8990 if the taxpayer only has BIE from the following excepted trades or businesses.

- The trade or business of providing services as an employee.
- An electing real property trade or business.
- An electing farming business.
- Certain utility businesses.

Small business taxpayer. A small business taxpayer isn't subject to the BIE limitation and isn't required to file Form 8990. A small business taxpayer is a taxpayer that (a) isn't a tax shelter (as defined in section 448(d)(3)); and (b) meets the gross receipts test of section 448(c), discussed next.

Gross receipts test. A taxpayer meets the gross receipts test if the taxpayer has average annual gross receipts of \$31 million or less for the 3 prior tax years. A taxpayer's average annual gross receipts for the 3 prior tax years is determined by adding the gross receipts for the 3 prior tax years and dividing the total by 3. Gross receipts include the aggregate gross receipts from all persons treated as a single employer, such as a controlled group of corporations, commonly controlled partnerships, or proprietorships, and affiliated service groups. See section 448(c) and the Instructions for Form 8990 for additional information.

Question 25

To be certified as a QOF, the partnership must file Form 1065 and attach Form 8996, even if the partnership had no income or expenses to report. If the partnership is attaching Form 8996, answer "Yes" to question 25. On the line following the dollar sign, enter the amount from Form 8996, Part III, line 15.

Question 26

Provide the number of foreign partners subject to section 864(c)(8) as a result of transferring all or a portion of an interest in the partnership if the partnership is engaged in a U.S. trade or business. Section 864(c)(8) provides that gain or loss of a foreign transferor from the transfer of a partnership interest is treated as effectively connected with the conduct of a trade or business within the United States to the extent that the transferor would have had effectively connected gain or loss if the partnership sold all of its assets at FMV on the date of transfer. For purposes of section 864(c)(8), a "transfer of a partnership interest" means a sale, an exchange, or other disposition, and includes a distribution from a partnership to a partner to the extent that gain or loss is recognized on the distribution, as well as a transfer treated as a sale or an exchange under section 707(a)(2)(B). Section 864(c)(8) applies to foreign partners that directly or indirectly transfer an interest in a partnership that is engaged in a U.S. trade or business. The partnership should include in its response any transfer for which it has received notification or otherwise knows about. If the partnership is a PTP as defined in section 469(k)(2) and has properly answered "Yes" to question 5 on Form 1065, Schedule B, then it's not required to answer the question.

If a partnership had any foreign partners subject to section 864(c)(8), the partnership must complete Schedule K-3 (Form 1065), Part XIII, for each foreign partner subject to section 864(c)(8) on a transfer or distribution. The partnership may also be required to withhold under section 1446(f)(1) on the distribution to the transferor partner and under section 1446(f)(4) on its future distributions to the transferee partner if the transferor partner failed to withhold on the transfer under section 1446(f)(1). See Pub. 515, Withholding of Tax on Nonresident Aliens and Foreign Entities, for more information.

Question 27

Answer "Yes" if at any time during the tax year there were transfers between the partnership and its partners subject to the

disclosure requirements of Regulations section 1.707-8. For certain transfers that are presumed to be sales, the partnership or the partners must comply with the disclosure requirements in Regulations section 1.707-8. Generally, disclosure is required when:

1. Certain transfers to a partner are made within 2 years of a transfer of property by the partner to the partnership;
2. Certain debt is incurred by a partner within 2 years of the earlier of (a) a written agreement to transfer, or (b) a transfer of the property that secures the debt, if the debt is treated as a qualified liability; or
3. Transfers from a partnership to a partner occur which are the equivalent to those listed in (1) or (2) above.

The disclosure must be made on the transferor partner's return using Form 8275, Disclosure Statement, or on an attached statement providing the same information. When more than one partner transfers property to a partnership under a plan, the disclosure may be made by the partnership rather than by each partner.

Question 28

Section 7874 applies in certain cases in which a foreign corporation directly or indirectly acquires substantially all of the properties constituting a trade or business of a domestic partnership. Answer "Yes" if, since December 22, 2017, a foreign corporation directly or indirectly acquired substantially all of the properties constituting a trade or business of your partnership (and you're a domestic partnership), and the ownership with respect to the acquisition was greater than 50% (by vote or value). If "Yes," list the ownership percentage by both vote and value.

The information must be reported even if you conclude that section 7874 doesn't apply.

Section 7874 generally applies when the following three requirements are met.

- Pursuant to a plan or series of related transactions, a foreign corporation must acquire directly or indirectly substantially all of the properties constituting a trade or business of a domestic partnership.
- After the acquisition, the ownership percentage (by vote or value) must be at least 60%.
- After the acquisition, the expanded affiliate that includes the foreign acquiring corporation must not have substantial business activities in the foreign country in which the foreign acquiring corporation is created or organized.

When section 7874 applies, the tax treatment of the acquisition depends on the ownership percentage. If the ownership percentage is at least 80%, the foreign acquiring corporation is treated as a domestic corporation for all purposes of the Code. See section 7874(b). If the ownership percentage is at least 60% but less than 80%, the foreign acquiring corporation is considered a foreign corporation but the domestic partnership and certain other persons are subject to special rules that reduce the tax benefits of the acquisition. See section 7874(a)(1).

The Tax Cuts and Jobs Act of 2017 provides additional special rules for certain cases in which section 7874 applies. See sections 59A(d)(4) and 965(l).

Ownership percentage. The ownership percentage is the percentage described in section 7874(a)(2)(B)(ii). See the regulations under section 7874 for rules regarding the computation of the ownership percentage.

In general, the ownership percentage measures the percentage of stock of the foreign acquiring corporation that is held by partners of the domestic partnership by reason of

holding a capital or profits interest in the domestic partnership, with certain adjustments (for example, disregarding certain stock of the foreign acquiring corporation attributable to passive assets or assets of other domestic entities that were recently acquired by the foreign acquiring corporation). The ownership percentage is measured separately by vote and value.

Multiple reportable acquisitions. If there are multiple acquisitions that must be reported, list on the lines for question 28 the ownership percentage by vote and value for the most recent acquisition. Attach a statement reporting the ownership percentage by vote and value for the other acquisitions.

Question 29

Under section 4501, the partnership may be required to file Form 7208, Excise Tax on Repurchase of Corporate Stock, and pay the stock repurchase excise tax if, during the partnership's tax year, (a) the partnership is a specified affiliate of an applicable foreign corporation, or (b) the partnership is an expatriated entity with respect to a covered surrogate foreign corporation. See the Instructions for Form 7208. For additional information, see section 4501.

Question 30

Digital assets are any digital representations of value that are recorded on a cryptographically secured distributed ledger or any similar technology. For example, digital assets include non-fungible tokens (NFTs) and virtual currencies, such as cryptocurrencies and stablecoins. If a particular asset has the characteristics of a digital asset, it will be treated as a digital asset for federal income tax purposes.

Answer "Yes" if at any time during 2025, the partnership (a) received (as a reward, award, or payment for property or services); or (b) sold, exchanged, or otherwise disposed of a digital asset (or any financial interest in any digital asset).

For example, answer "Yes" if at any time during 2025 the partnership:

- Received digital assets as payment for property or services provided;
- Received digital assets as a result of a reward or award;
- Received new digital assets as a result of mining, staking, and similar activities;
- Received digital assets as a result of a hard fork;
- Disposed of digital assets in exchange for property or services;
- Disposed of a digital asset in exchange or trade for another digital asset;
- Sold a digital asset; or
- Otherwise disposed of any other financial interest in a digital asset.

The partnership has a financial interest in a digital asset if it's the owner of record of a digital asset, or has an ownership stake in an account that holds one or more digital assets, including the rights and obligations to acquire a financial interest, or it owns a wallet that holds digital assets.

The following actions or transactions in 2025, alone, generally don't require the partnership to answer "Yes."

- Holding a digital asset in a wallet or account.
- Transferring a digital asset from one wallet or account it owns or controls to another wallet or account that it owns or controls.
- Purchasing digital assets using U.S. or other real currency, including through the use of electronic platforms such as PayPal and Venmo.

Don't leave the question unanswered. You must answer "Yes" or "No" by checking the appropriate box. For more information, go to [IRS.gov/VirtualCurrencyFAQs](https://www.irs.gov/VirtualCurrencyFAQs).

Question 32

A qualifying syndicate, pool, joint venture, or similar organization may elect under section 761(a) not to be treated as a partnership for federal income tax purposes and won't be required to file Form 1065 except for the year of election. If an election out of subchapter K is being made for the tax year, answer "Yes" and attach a statement that contains:

- The names, addresses, and identification numbers of all the members of the organization;
- A statement that the organization qualifies under Regulations section 1.761-2(a), paragraph (1), and either paragraph (2) or (3);
- A statement that all members of the organization elect to exclude the organization from all of subchapter K; and
- A statement indicating the availability of the agreement under which the organization operates (or for an oral agreement, from whom the provisions of the agreement may be obtained).

For calendar-year organizations, Form 1065 must be filed by March 15 following the close of the first calendar year for which the section 761(a) election is being made. The filing date for fiscal-year organizations is the 15th day of the 3rd month following the close of the 1st fiscal year. These dates are subject to filing extensions. See Regulations section 1.761-2 for more information concerning making the election out of subchapter K.

Question 33

Answer "Yes" if an eligible partnership chooses to elect out of the centralized partnership audit regime for the tax year and enter the total from Schedule B-2, Part III, line 3. If making the election, attach a completed Schedule B-2 to Form 1065. An election out of the centralized partnership audit regime can only be made on a timely filed return (including extensions). A partnership is an eligible partnership for the tax year if it has 100 or fewer eligible partners in that year. Eligible partners are individuals, C corporations, S corporations, foreign entities that would be C corporations if they were domestic entities, and estates of deceased partners. The determination as to whether the partnership has 100 or fewer partners is made by adding the number of Schedules K-1 required to be issued by the partnership for the tax year to the number of Schedules K-1 required to be issued by any partner that is an S corporation to its shareholders for the tax year of the S corporation ending with or within the partnership tax year. A partnership isn't eligible to elect out of the centralized partnership audit regime if it's required to issue a Schedule K-1 to any of the following partners.

- A partnership.
- A trust.
- A foreign entity that would not be treated as a C corporation if it were a domestic entity.
- A DE described in Regulations section 301.7701-2(c)(2)(i).
- An estate of an individual other than a deceased partner.
- Any person that holds an interest in the partnership on behalf of another person.

Designated Partnership Representative (PR)

Section 6223 provides that unless the partnership has made a valid election out of the centralized partnership audit regime, each partnership must designate, in the manner prescribed by the Secretary, a partner or other person with a substantial presence in the United States as the PR who shall have the sole authority to act on behalf of the partnership. On Form 1065, provide the name, address, and phone number of the PR. If an entity is designated as the PR, the partnership must also appoint an individual to act on the entity's behalf (a DI). To be a DI, the appointed person must also have a substantial presence in the United States.

How to designate. A designation of a PR must be made for each respective year on the partnership's Form 1065. The partnership can revoke a designation of a PR or DI, and the PR or DI can resign, by submitting Form 8979, Partnership Representative Designation or Resignation.

Caution: See the Instructions for Form 8979 for information concerning how and when Form 8979 can be submitted to the IRS.

PR authority. Under section 6223, the partnership and all its partners (and any other person whose tax liability is determined in whole or in part by taking into account directly or indirectly adjustments determined under the centralized partnership audit regime) are bound by the actions of the PR in dealings with the IRS. A designation for a partnership tax year remains in effect until the designation is terminated by (a) a valid resignation of the PR or DI, (b) a valid revocation of the PR (with designation of successor PR), or (c) a determination by the IRS that the designation isn't in effect.

Substantial presence. In order for either a PR or a DI to have substantial presence, they must make themselves available to meet in person with the IRS in the United States at a reasonable time and place as determined by the IRS, and must have a street address in the United States, a U.S. TIN, and a telephone number with a U.S. area code.

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

Purpose of Schedules

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

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

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

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

Substitute Forms

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

specific instructions for each item reported on the partner's Schedule K-1.

The partnership must request IRS approval to use other substitute Schedules K-1. To request approval, write to:

Internal Revenue Service
Attention: Substitute Forms Program
SE:W:CAR:MP:P:TP:TP
ATSC
4800 Buford Highway
Mail Stop 061-N
Chamblee, GA 30341
substituteforms@irs.gov

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

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

How Income Is Shared Among Partners

Allocate shares of income, gain, loss, deduction, or credit among the partners according to the partnership agreement for sharing income or loss generally. Partners may agree to allocate specific items in a ratio different from the ratio for sharing income or loss. For instance, if the net income exclusive of specially allocated items is divided evenly among three partners but some special items are allocated 50% to one, 30% to another, and 20% to the third partner, report the specially allocated items on the appropriate line of the applicable partner's Schedule K-1 and the total on the appropriate line of Schedule K, instead of on the numbered lines on page 1 of Form 1065, Form 1125-A, or Schedule D (Form 1065).

If a partner's interest changed during the year (such as the entrance of a new partner, the exit of a partner, an increase to a partner's interest through an additional capital contribution, or a decrease in a partner's interest through a distribution), see section 706(d) and Regulations section 1.706-4 before determining each partner's distributive share of any item of income, gain, loss, and deduction, and other items. Partnership items are allocated to a partner only for the part of the year in which that person is a member of the partnership. Generally, for each change in a partner's interest, the partnership will either allocate its items using a proration method or a closing-of-the-books method. Special rules apply to certain partnerships, certain variations, and certain items. See Regulations section 1.706-4 for additional rules and procedures for making elections. In addition, special rules in section 706(d) (2) apply to certain items of partnerships that report their income on the cash basis, and special rules in section 706(d)(3) apply to tiered partnerships.

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

See [Dispositions of Contributed Property](#), earlier, for special rules on the allocation of income, gain, loss, and deductions on

the disposition of property contributed to the partnership by a partner.

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

Specific Instructions (Schedule K-1 Only)

General Information

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

However, a foreign partnership that has one or more U.S. partners must file Form 1065. But if it meets each of the following four requirements, it isn't required to file or provide Schedules K-1 for foreign partners (unless the foreign partner is a pass-through entity through which a U.S. person holds an interest in the foreign partnership).

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

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

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

How To Complete Schedule K-1

Caution: In order to enable accurate scanning and processing of Schedule(s) K-1, use a 10-point Helvetica Light Standard font for all entries on Schedules K-1 if the entries are typed or made using a computer.

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

Codes. In box 11, boxes 13 through 15, and boxes 17 through 20, identify each item by entering a code in the column to the left of the entry space for the dollar amount. These codes are identified in these instructions and on the *List of Codes* in the Partner's Instructions for Schedule K-1 (Form 1065).

Attached statements. When attaching statements to Schedule K-1 to report additional information to the partner, indicate there's a statement for the following.

- If an amount can be input on Schedule K-1 but additional information is required, enter an asterisk (*) after the code in the column to the left of the entry space.
- For items that can't be reported as a single dollar amount, enter the code and an asterisk (*) in the column to the left and enter "STMT" in the right column to indicate that the information is provided on an attached statement.
- If the partnership has more coded items than the number of entry boxes (for example, box 11, boxes 13 through 15, or boxes 17 through 20), don't enter a code or dollar amount in the last entry box. Instead, enter an asterisk (*) in the left column and enter "STMT" in the entry space to the right.

More than one attached statement can be placed on the same sheet of paper. The information included in the statement should be identified in alphanumeric order by box number followed by the letter code (if any), description, and dollar amount for each item. For example: "Box 13, code J—Section 59(e)(2) expenditures—\$1,000." This can be followed with any additional information the partner needs to determine the proper tax treatment of the item.

Section 721(c) partnerships. When the gain deferral method, as described in Regulations section 1.721(c)-3, 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 Regulations sections 1.721(c)-6(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 Regulations section 1.721(c)-1 for definitions.

Part I. Information About the Partnership

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

Item C. If the partnership is filing its return electronically, enter "e-file." Otherwise, enter the name of the IRS Service Center where the partnership will file its return. See [Where To File](#), earlier.

Part II. Information About the Partner

Complete a Schedule K-1 for each partner. On each Schedule K-1, enter the partner's name, address, identifying number, and distributive share items. See special rules below for partners that are DEs.

Items E and F

For an individual partner, enter the partner's SSN or individual taxpayer identification number (ITIN) rather than the TIN of the DE partner. For all other partners, enter the partner's EIN.

However, if a partner is an IRA, enter the identifying number of the custodian of the IRA. Don't enter the identification number of the person for whom the IRA is maintained. If the partnership reports unrelated business taxable income (UBTI) to such IRA partner, include the IRA partner's unique EIN in box 20, code AR, along with the amount of such income.

Note: For tax year 2025, PTPs aren't required to include the IRA partner's unique EIN in box 20, code AR.

Caution: Don't include dashes when entering the EIN in box 20.

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

If the partner in the partnership is an entity, such as a single-member LLC, that is a DE for federal income tax purposes, enter the TIN of the beneficial owner of the DE partner in item E rather than the TIN of the DE partner. The beneficial owner is the taxpayer who owns the DE partner. In item F, enter the name and address of the beneficial owner of the DE partner. See the instructions for item H2 below.

Note: If the partner is an LLC or a trust, the partnership should inquire as to whether the LLC is a DE for federal income tax purposes. If the LLC or trust is a DE, the partnership must verify that the partner's TIN is the TIN used by the partner's beneficial owner in filing its federal income tax return.

Truncating recipient's TIN on Schedule K-1. The partnership can truncate a partner's identifying number on the Schedule K-1 the partnership sends to the partner. Truncation isn't allowed on the Schedule K-1 the partnership files with the IRS. Also, the partnership can't truncate its own identification number on any form.

To truncate, where allowed, replace the first five digits of the nine-digit number with asterisks (*) or Xs (for example, an SSN xxx-xx-xxxx would appear as ***-**-xxxx or XXX-XX-xxxx). For more information, see Regulations section 301.6109-4.

Foreign address. If the partner has a foreign address, enter the information in the following order: city or town, state or province, country, and ZIP or foreign postal code. Follow the country's practice for entering the postal code. Don't abbreviate the country name.

Item G

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

Item H1. Domestic/Foreign Partner

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

Item H2. Disregarded Entity (DE)

If the partner is a DE, check the box and provide the name and TIN of the DE partner. The partnership should make reasonable attempts to obtain the DE's TIN. If after making reasonable attempts to obtain the DE's TIN such TIN is unavailable or unknown to the partnership, the partnership may report the DE's TIN as unknown. If the DE doesn't have a TIN, enter "None" in the space for the DE's TIN. For more information about DE reporting, go to [IRS.gov/Forms-Pubs/Clarifications-for-disregarded-entity-reporting-and-section-743b-reporting](https://www.irs.gov/forms-pubs/clarifications-for-disregarded-entity-reporting-and-section-743b-reporting).

Item I1. What Type of Entity Is This Partner?

State whether the partner is an individual, a corporation, an estate, a trust, a partnership, a DE, an exempt organization, a foreign government, or a nominee (custodian). If the partner is an LLC and has elected to be treated as other than a DE under Regulations section 301.7701-3 for federal income tax purposes, the partnership must enter the LLC's classification for federal income tax purposes (that is, a corporation or partnership). If any legal owner of the partnership is a DE for federal income tax purposes, report the beneficial owner's entity type in item I1. If

the partner is a nominee, use one of the following codes after the word "nominee" to indicate the type of entity the nominee represents: I—Individual; C—Corporation; F—Estate or Trust; P—Partnership; DE—Disregarded Entity; E—Exempt Organization; IRA—Individual Retirement Arrangement; or FGOV—Foreign Government. If the partner is a nominee that acts on behalf of more than one person, use code M—Multiple.

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

On each line, enter the partner's percentage share of the partnership's profit, loss, and capital as of the beginning and end of the partnership's tax year, as determined under the partnership agreement. If a partner's interest commences after the beginning of the partnership's tax year, enter in the "Beginning" column the percentages that existed for the partner immediately after admission. If a partner's interest terminates before the end of the partnership's tax year, enter in the "Ending" column the percentages that existed immediately before termination.

On the line for "Capital," enter the percentage share of the capital that the partner would receive if the partnership was liquidated by the distribution of undivided interests in partnership assets and liabilities. If the partner's capital account is negative or zero, express the percentage ownership of capital as zero.

The partner's percentage share of each category must be expressed as a percentage. The percentage must not be negative. The total percentage interest in each category must total 100% for all partners. To determine whether the total beginning and ending percentages are 100%, don't include the beginning percentage for a partner that wasn't a partner at the beginning of the partnership's tax year or the ending percentage for a partner that left the partnership before the end of the partnership's tax year. If the partnership agreement doesn't express the partner's share of profit, loss, and capital as fixed percentages, the partnership may use a reasonable method in arriving at each percentage for purposes of completing the items required by item J, as long as such method is consistent with the partnership agreement and is applied consistently from year to year. Maintain records to support the share of profits, losses, and capital reported for each partner.

If there is a decrease in the partner's share of profits, losses, or capital, indicate whether it was due to a sale or an exchange.

Sale box. Check the "Sale" box in this item if there was a taxable sale of all or part of a partnership interest to a new or pre-existing partner during the year, regardless of whether the partner recognized gain or loss on the transaction(s). "Sale," for the purposes of this checkbox, means a taxable transaction involving the transfer of a partnership interest. This will exclude transfers subject to gain recognition under section 721(b). This will also exclude transactions where a new partnership interest is issued to a partner in exchange for property contributed to the partnership, even if some gain is recognized by the contributing partner.

Exchange box. Check the "Exchange" box in this item if there was a nontaxable exchange of all or part of a partnership interest to a new or pre-existing partner during the year. "Exchange," for purposes of this checkbox, means a nontaxable transaction involving the transfer of a partnership interest excluding a transfer on the death of a partner. "Exchange" also includes a transaction under section 721(a) regardless of whether gain recognition took place.

Item K1. Partner's Share of Liabilities

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

Nonrecourse liabilities are those liabilities of the partnership for which no partner (or related person) bears the economic risk

of loss. The extent to which a partner bears the economic risk of loss is determined under the rules of Regulations section 1.752-2. Don't include partnership-level qualified nonrecourse financing (defined below) on the line for nonrecourse liabilities.

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

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

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

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

Qualified nonrecourse financing secured by real property used in an activity of holding real property that is subject to the at-risk rules is treated as an amount at risk. Qualified nonrecourse financing generally includes financing for which no one is personally liable for repayment that is borrowed for use in an activity of holding real property and that is loaned or guaranteed by a federal, state, or local government or that is borrowed from a qualified person. Qualified persons include any person actively and regularly engaged in the business of lending money, such as a bank or savings and loan association. Qualified persons generally don't include related parties (unless the nonrecourse financing is commercially reasonable and on substantially the same terms as loans involving unrelated persons), the seller of the property, or a person who receives a fee for the partnership's investment in the real property. See section 465(b)(6) for more information on qualified nonrecourse financing.

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

Item K2

If a partnership (upper-tier) owns a direct interest in other partnerships (lower-tier), then Regulations section 1.752-4(a) requires that the upper-tier partnership allocate to its partners its share of the lower-tier partnership's liabilities (except for any liability of the lower-tier partnership that is owed to the upper-tier partnership). Allocate those lower-tier partnership liabilities to each partner based on whether that liability is a recourse or

nonrecourse liability to the partner under the regulations under section 752. The characterization of a liability may change as it moves from a lower-tier partnership to an upper-tier partnership. If Schedule K-1 (Form 1065) includes lower-tier partnership liabilities, check the box in item K2. If the total liabilities on all Schedules K-1 (Form 1065) don't equal the total liabilities on Schedule L, attach a reconciliation.

Item K3. Payment Obligations Including Guarantees and Deficit Restoration Obligations (DROs)

Check the box in item K3 if the partner or a related person has certain payment obligations, including guarantees or DROs, with respect to any liability in item K1. See the instructions for line 20c, [code X](#), for additional information. For purposes of item K3, a payment obligation is defined as an obligation under Regulations section 1.752-2(b)(1) that is recognized under Regulations sections 1.752-2(b)(3)(i)(A) and (B) (such as a recognized guarantee or an obligation to restore a deficit capital account upon liquidation), and a related person is defined as a related person as defined in Regulations section 1.752-4(b).

Item L. Partner's Capital Account Analysis

You aren't required to complete item L if the answer to question 4 of Schedule B is "Yes." If you're required to complete this item, also see the instructions for Schedule M-2, later.

Tax-basis method. Figure each partner's capital account for the partnership's tax year using the transactional approach, discussed below, for the tax-basis method.

How to report partnership events or transactions. If you're uncertain how to report a partnership event or transaction, you should account for the event or transaction in a manner generally consistent with figuring the partner's adjusted tax basis in its partnership interest (without regard to partnership liabilities), taking into account the rules and principles of sections 705, 722, 733, and 742 and by reporting the amount on the line for other increase (decrease). The partner's ending capital account as reported using the tax-basis method in item L might not equal the partner's adjusted tax basis in its partnership interest. Generally, this is because a partner's adjusted tax basis in its partnership interest includes the partner's share of partnership liabilities, as well as partner-specific adjustments. Each partner is responsible for maintaining a record of the adjusted tax basis in its partnership interest.

Beginning capital account. Enter the partner's ending capital account as determined for last year on the line for beginning capital account. If a partner joined the partnership through a contribution to the partnership this year, enter zero as the partner's beginning capital account.

Capital contributed during the year. On the line "Capital contributed during the year," enter the amount of cash plus the adjusted tax basis of all property contributed by the partner to the partnership during the year. The amount you enter on this line should be reduced by any liabilities assumed by the partnership in connection with, or liabilities to which the property is subject immediately before, the contribution. This amount might be negative.

Current year net income (loss). On the line "Current year net income (loss)," enter the partner's distributive share of partnership income and gain (including tax-exempt income) as figured for tax purposes for the year, minus the partner's distributive share of partnership loss and deductions (including nondeductible, noncapital expenditures) as figured for tax purposes for the year.

Other increase (decrease). On the line "Other increase (decrease)," enter the sum of all other increases or decreases that affected the partner's capital account for tax purposes during the year and attach a statement explaining each

adjustment. For example, if a new partner acquired its interest in the partnership from another partner in a purchase, exchange, gift, or inheritance, enter an amount for the transferee under other increase that is equal to the transferor partner's ending capital account with respect to the interest transferred immediately before the transfer figured using the tax-basis method. Other examples of increases include the following.

- The partner's distributive share of the excess of the tax deductions for depletion (other than oil and gas depletion) over the adjusted tax basis of the property subject to depletion.
- The partner's share of any increase to the adjusted tax basis of partnership property under section 734(b).

If a transferor partner disposed of its interest in the partnership by sale, exchange, or gift, or as the result of death, enter the transferor partner's ending capital account with respect to the interest transferred immediately before the transfer figured using the tax-basis method. Other examples of decreases include the following.

- The partner's distributive share of tax deductions for depletion of any partnership oil and gas property, but not exceeding the partner's share of the adjusted tax basis of that property.
- The partner's share of any decrease to the adjusted tax basis of partnership property under section 734(b).

Note: Section 743(b) basis adjustments aren't taken into account in calculating a partner's capital account under the tax-basis method.

Withdrawals and distributions. On the line "Withdrawals and distributions," enter the amount of cash plus the adjusted tax basis of all property distributed by the partnership to the partner during the year. The amount you enter on this line should be reduced by any liabilities assumed by the partner in connection with, or liabilities to which the property is subject immediately before, the distribution. This amount might be negative.

Ending capital account. The sum of the amounts shown on the lines in item L above the line "Ending capital account" must equal the amount reported on the line "Ending capital account." A partner's ending capital account determined under the tax-basis method may be negative if the sum of a partner's losses and distributions exceeds the sum of the partner's contributions and share of income.

Publicly traded partnerships (PTPs). In the case of a sale or exchange of an interest in a PTP, you may determine a transferee partner's beginning capital account by adjusting the partner's beginning capital account to reflect the transferee partner's purchase price of the interest rather than entering the transferor partner's ending capital account. In making the adjustments, you may use information required to be reported to you under Temporary Regulations section 1.6031(c)-1T, and publicly available trading price information.

Item M. Did the Partner Contribute Property With a Built-in Gain or Loss?

Check the appropriate box to indicate whether the partner contributed property with a built-in gain or loss during the tax year. If "Yes," attach a statement that contains the following information.

- A description of each property the partner contributed.
- The date the property was contributed.
- The amount of the property's built-in gain or loss.

Exception. If a partner contributes more than 10 properties with either a built-in gain or built-in loss on any date during the tax year, the partnership isn't required to provide the required information separately for each property contributed for that date. Instead, the partnership can report the (a) number of properties contributed on that date, (b) total amount of built-in

gain, and (c) total amount of built-in loss. Don't net the built-in gains and built-in losses; instead, show the total built-in gain and total built-in loss for all properties contributed on that date.

A property's built-in gain is the amount by which the FMV of the property exceeds its adjusted tax basis at the time the property is contributed to the partnership. A property's built-in loss is the amount by which the FMV of the property is less than its adjusted tax basis at the time the property is contributed to the partnership. Partnerships are required to keep track of this information; see Regulations section 1.704-3. This information is also needed for purposes of allocating partnership items to partners because income, gain, loss, and deductions related to property contributed to the partnership by a partner must be shared among the partners so as to take account of the variation between the basis of the property to the partnership and its FMV at the time of contribution. If the partnership distributes any property (other than built-in gain property) to a partner that has contributed built-in gain property to the partnership within the last 7 years, it will need this information for the attached statement required in the instructions for Schedule K, line 19b, for distributions subject to section 737 (code B). If the partnership distributes contributed property with a built-in gain or loss to any partner other than the partner that contributed the property and the date of the distribution is within 7 years of the date the property was contributed to the partnership, it will need this information for the attached statement required by the instructions for line 20c of Schedule K for the pre-contribution gain (loss) (code W).

Item N. Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

For item N, the partnership should report the partner's share of net unrecognized section 704(c) gains or losses, both at the beginning and at the end of the partnership's tax year. Solely for purposes of completing item N, the section 704(c) gain or loss is the partner's share of the net ("net" means aggregate or sum) of all unrecognized section 704(c) gain or loss in partnership property, including section 704(c) gain or loss arising from revaluations of partnership property. See Notice 2019-66 for more information.

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

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

Special Allocations

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

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

Example. A partnership has a long-term capital gain that is specially allocated to a partner and a net long-term capital gain reported on Schedule D (Form 1065), line 15, that must be reported on Schedule K, line 9a. Because specially allocated gains or losses aren't reported on Schedule D, the partnership must report both the net long-term capital gain from Schedule D and the specially allocated gain on Schedule K, line 9a. Box 9a of Schedule K-1 for the partner must include both the specially allocated gain and the partner's distributive share of the net long-term capital gain from Schedule D.

Income (Loss)

Line 1. Ordinary Business Income (Loss)

Enter the amount from page 1, line 23. Enter the income (loss) without reference to (a) the bases of the partners' interests in the partnership, (b) the partners' at-risk limitations, or (c) the passive activity limitations. These limitations, if applicable, are determined at the partner level.

Line 1 shouldn't include rental activity income (loss) or portfolio income (loss).

Schedule K-1. Enter each partner's distributive share of ordinary business income (loss) in box 1 of Schedule K-1. Identify on statements attached to Schedule K-1 any additional information the partner needs to correctly apply the passive activity limitations. For example, if the partnership has more than one trade or business activity, identify on an attached statement to Schedule K-1 the amount from each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

Line 2. Net Rental Real Estate Income (Loss)

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

Schedule K-1. Enter each partner's distributive share of net rental real estate income (loss) in box 2 of Schedule K-1. Identify on statements attached to Schedule K-1 any additional information the partner needs to correctly apply the passive activity limitations. For example, if the partnership has more than one rental real estate activity, identify the amount attributable to each activity. Also, for example, identify certain items from any rental real estate activities that may be subject to the recharacterization rules. See [Passive Activity Reporting Requirements](#), earlier.

Line 3. Other Net Rental Income (Loss)

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

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

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

See [Rental Activities](#), earlier, and Pub. 925 for more information on rental activities.

Schedule K-1. Enter each partner's distributive share of net income (loss) from rental activities other than rental real estate activities in box 3 of Schedule K-1. Identify on statements attached to Schedule K-1 any additional information the partner needs to correctly apply the passive activity limitations. For example, if the partnership has more than one rental activity reported in box 3, identify on an attached statement to Schedule K-1 the amount from each activity. See [Passive Activity Reporting Requirements](#), earlier.

Line 4. Guaranteed Payments to Partners

Guaranteed payments are payments made by a partnership to a partner that are determined without regard to the partnership's

income. Some examples of guaranteed payments to partners include:

- Payments for salaries, health insurance, and interest deducted by the partnership and reported on Form 1065, page 1, line 10; Form 8825; or Schedule K, line 3b;
- Compensation deferred under a section 409A nonqualified deferred compensation plan that doesn't meet the requirements of section 409A reported on Schedule K, line 20c, code AI; and
- Payments the partnership must capitalize. See the instructions for Form 1065, line 10.

Generally, amounts reported on line 4a as guaranteed payments for services and line 4b as guaranteed payments for the use of capital aren't considered to be related to a passive activity. For example, guaranteed payments for personal services paid to a partner would not be passive activity income. Likewise, guaranteed payments for capital are treated as interest for purposes of section 469 and are generally not passive activity income.

Tip: A partnership must treat and report a transfer of partnership property to a partner in satisfaction of a guaranteed payment as a sale or exchange, and not a distribution. See Rev. Rul. 2007-40, 2007-25 I.R.B. 1426, for more details.

Schedule K-1. Enter each partner's guaranteed payments for services in box 4a and guaranteed payments for use of capital in box 4b of Schedule K-1. Report each partner's total guaranteed payments in box 4c of Schedule K-1.

Portfolio Income

See [Portfolio Income](#), earlier, for a definition of portfolio income.

Don't reduce portfolio income by deductions allocated to it. Report such deductions (other than interest expense) on Schedule K, line 13e. Report each partner's distributive share of deductions (other than interest) allocable to portfolio income in box 13 of Schedule K-1 using code I or L.

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

Line 5. Interest Income

Enter only taxable portfolio interest on this line. Taxable interest is interest from all sources except interest exempt from tax and interest on tax-free covenant bonds. Include interest income from the credit to holders of tax credit bonds. See the instructions for codes AP through AU under [Line 15f](#), later, and the Instructions for Form 8912, Credit to Holders of Tax Credit Bonds, for details.

Schedule K-1. Enter each partner's distributive share of interest income in box 5 of Schedule K-1. If the partnership is reporting interest income from clean renewable energy bonds, attach a statement to Schedule K-1 that shows each partner's distributive share of interest income from this credit. Partners need this information to properly adjust the bases of their interests in the partnership.

Line 6a. Ordinary Dividends

Enter only taxable ordinary dividends on line 6a, including any qualified dividends reported on line 6b. Don't include any dividend equivalents reported on line 6c, or, to the extent

attributable to previously taxed earnings and profits (PTEP) in annual PTEP accounts of the partnership, any distributions received by the partnership from foreign corporations.

Note: The amount determined by the partnership based on its annual PTEP accounts in determining the amount on line 6a doesn't include the amount by which distributions are attributable to PTEP in annual PTEP accounts of a direct or indirect partner.

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

Line 6b. Qualified Dividends

Enter qualified dividends on line 6b. Except as provided below, qualified dividends are dividends received from domestic corporations and qualified foreign corporations. Don't include any distributions received by the partnership from foreign corporations to the extent that they are attributable to PTEP in annual PTEP accounts of the partnership.

Note: The amount determined by the partnership based on its annual PTEP accounts in determining the amount on line 6b doesn't include the amount by which distributions are attributable to PTEP in annual PTEP accounts of a direct or indirect partner.

Exceptions. The following dividends aren't qualified dividends.

- Dividends the partnership received on any share of stock held for less than 61 days during the 121-day period that began 60 days before the ex-dividend date. When determining the number of days the partnership held the stock, don't count certain days during which the partnership's risk of loss was diminished. The ex-dividend date is the first date following the declaration of a dividend on which the purchaser of a stock isn't entitled to receive the next dividend payment. When counting the number of days the partnership held the stock, include the day the partnership disposed of the stock but not the day the partnership acquired it.
- Dividends attributable to periods totaling more than 366 days that the partnership received on any share of preferred stock held for less than 91 days during the 181-day period that began 90 days before the ex-dividend date. When determining the number of days the partnership held the stock, don't count certain days during which the partnership's risk of loss was diminished. Preferred dividends attributable to periods totaling less than 367 days are subject to the 61-day holding period rule above.
- Dividends that relate to payments that the partnership is obligated to make because of short sales or positions in substantially similar or related property.
- Dividends paid by a RIC that aren't treated as qualified dividend income under section 854.
- Dividends paid by a REIT that aren't treated as qualified dividend income under section 857(c).
- Dividends from a corporation which first became a surrogate foreign corporation (as defined in section 7874(a)(2)(B) after December 22, 2017) other than a foreign corporation that is treated as a domestic corporation under section 7874(b). See section 1(h)(11)(C)(iii)(II).

See Pub. 550 for more details.

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

1. Incorporated in a territory of the United States, or
2. Eligible for benefits of a comprehensive income tax treaty with the United States that the Secretary determines is satisfactory for this purpose and that includes an exchange

of information program. See Notice 2011-64, 2011-37 I.R.B. 231, for details.

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

However, qualified dividends don't include dividends paid by an entity that was a PFIC (defined in section 1297) in either the tax year of the distribution or the preceding tax year.

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

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

Attach a statement to the Schedule K-1 identifying the dividends included in box 6a or 6b that are eligible for the deduction for dividends received under section 243(a), (b), or (c); section 245; or section 245A; or are hybrid dividends as defined in section 245A(e)(4).

Caution: If any amounts from line 6b are from foreign sources, see the Partnership Instructions for Schedules K-2 and K-3 for additional information.

Line 6c. Dividend Equivalents

Information on dividend equivalents, as described in section 871(m), is provided for persons that aren't U.S. persons, who are generally required to treat dividend equivalents as U.S. source dividends, and domestic partnerships with partners who may need this information. Enter the amount of dividend equivalents as defined in section 871(m). See Regulations section 1.871-15 for additional information. For purposes of line 6c, include all amounts that would be included as a dividend equivalent if the amount were paid to a person subject to tax under section 871 or 881, even if the partner is a U.S. person.

Line 7. Royalties

Enter the royalties received by the partnership.

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

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

Enter the gain (loss) that is portfolio income (loss) from Schedule D (Form 1065), line 7.

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

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

Enter the gain or loss that is portfolio income (loss) from Schedule D (Form 1065), line 15.

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

Caution: If any gain or loss from Schedule D, line 7 or 15, is from the disposition of nondepreciable personal property used in a trade or business, it may not be treated as portfolio income. Instead, report it on Schedule K, line 11, and report each partner's distributive share in box 11 of Schedule K-1 using code ZZ.

Caution: The information reported in boxes 9b and 9c relate to collectibles (28%) gain (loss) and unrecaptured section 1250

gain flowing through the partnership. If one or more partners sold an interest in the partnership, report separate amounts of collectibles (28%) gain and unrecaptured section 1250 gain related to the sale in box 20c, under codes AC and AD.

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

Figure the amount attributable to collectibles from the amount reported on Schedule D (Form 1065), line 15. A collectibles gain (loss) is any long-term gain or deductible long-term loss from the sale or exchange of a collectible that is a capital asset.

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

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

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

Line 9c. Unrecaptured Section 1250 Gain

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

From the sale or exchange of the partnership's business assets. Figure this amount in Form 4797, Part III, for each section 1250 property (except property for which gain is reported using the installment method on Form 6252) for which you had an entry in Form 4797, Part I. Subtract Form 4797, Part III, line 26g, from the smaller of Form 4797, line 22 or line 24. Figure the total of these amounts for all section 1250 properties. Generally, the result is the partnership's unrecaptured section 1250 gain. However, if the partnership is reporting gain on the installment method for a section 1250 property held more than 1 year, see the next paragraph.

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

Caution: If the partnership chose not to treat all of the gain from payments received after May 6, 1997, and before August 24, 1999, as unrecaptured section 1250 gain, use only the amount the partnership chose to treat as unrecaptured section 1250 gain for those payments to reduce the total unrecaptured section 1250 gain remaining to be reported for the sale. See Regulations section 1.453-12.

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

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

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

- The sale or exchange of the partnership's business assets.
- The sale or exchange of an interest in another partnership.
- An estate, a trust, a REIT, or a RIC.

Caution: If any amounts from line 9c are from foreign sources, see the Partnership Instructions for Schedules K-2 and K-3 for additional information.

Line 10. Net Section 1231 Gain (Loss)

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

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

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

Caution: If any amounts from line 10 are from foreign sources, see the Partnership Instructions for Schedules K-2 and K-3 for additional information.

Line 11. Other Income (Loss)

Enter any other item of income or loss not included on lines 1 through 10. Determine other income (loss) without regard to any amount reported on line 6c. On the line to the left of the entry space for line 11, identify the type of income. If there's more than one type of income, attach a statement to Form 1065 that separately identifies each type and amount of income for each of the following categories. The codes needed for Schedule K-1 reporting are provided in the heading for each category below.

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

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

For example, income reported to the partnership from a REMIC, in which the partnership is a residual interest holder, would be reported on an attached statement for line 11. If the partnership holds a residual interest in a REMIC, report on the

attached statement for box 11 of Schedule K-1 the partner's share of the following.

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

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

Code B. Involuntary conversions. Net gain (loss) from involuntary conversions due to casualty or theft. The amount for this line is shown on Form 4684, Casualties and Thefts, Section B, Part II, line 38a, 38b, or 39.

Each partner's share must be entered on Schedule K-1. Give each partner a schedule that shows the amounts to be reported in the partner's columns (b)(i), (b)(ii), and (c) of Form 4684, Section B, Part II, line 34.

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

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

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

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

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

Code F. Section 743(b) positive income adjustments. For partnerships other than PTPs, report the partner's share of net positive income resulting from all section 743(b) adjustments. For purposes of code F, "net positive income from all section 743(b) adjustments" means the excess of all section 743(b) adjustments allocated to the partner that increase the partner's taxable income over all section 743(b) adjustments that decrease the partner's taxable income. Attach a statement to line 20, code U, showing each section 743(b) basis adjustment making up the total and identify the assets to which it relates. The partnership may group these section 743(b) basis adjustments by asset category or description in cases where multiple assets are affected. See the instructions for line 20, code U.

Codes G and H. Reserved for future use.

Code I. Gain (loss) from disposition of oil, gas, geothermal, or other mineral properties (section 59(e)). Disposition of an interest in oil, gas, geothermal, or other mineral properties. Report the following information on an attached statement to Schedule K-1.

- Description of the property.
- The partner's share of the amount realized on the sale, exchange, or involuntary conversion of each property (FMV of the property for any other disposition, such as a distribution).

- The partner's share of the partnership's adjusted basis in the property (except for oil or gas properties).
- Total intangible drilling costs, development costs, and mining exploration costs (section 59(e) expenditures) passed through to the partner for the property.

See Regulations section 1.1254-5 for more information.

Code J. Recoveries of tax benefit items. See section 111.

Code K. Gambling gains and losses. Gambling gains and losses subject to the limitations in section 165(d). Indicate on an attached statement whether or not the partnership is in the trade or business of gambling.

Code L. Any income, gain, or loss to the partnership from a distribution under section 751(b). When a partnership makes a distribution and the partnership holds section 751 property, if any partner has any gain or loss under section 751(b), the partnership must report the net of all such gains or losses.

Code M. Gain eligible for section 1045 rollover (replacement stock purchased by partnership). Include only gain from the sale or exchange of qualified small business (QSB) stock (as defined in the Instructions for Schedule D (Form 1065)) that was deferred by the partnership under section 1045 and reported on Form 8949 and/or Schedule D (Form 1065). See the Instructions for Schedule D (Form 1065) and the Instructions for Form 8949 for more details. The partnership makes the election for the section 1045 rollover on a timely filed (including extensions) return for the year in which the sale occurred. Corporate partners aren't eligible for the section 1045 rollover. Additional limitations apply at the partner level. Each partner will determine if they qualify for the rollover. Report on an attached statement to Schedule K-1 for each sale or exchange (a) the name of the corporation that issued the QSB stock, (b) the partner's share of the partnership's adjusted basis and sales price of the QSB stock, (c) the dates the QSB stock was bought and sold, (d) the partner's distributive share of gain from the sale of the QSB stock, and (e) the partner's distributive share of the gain that was deferred by the partnership under section 1045. Only report these amounts on Schedule K-1; don't include them on Schedule K, line 11.

Code N. Gain eligible for section 1045 rollover (replacement stock not purchased by the partnership). Include only gain from the sale or exchange of QSB stock (as defined in the Instructions for Schedule D (Form 1065)) the partnership held for more than 6 months but that wasn't deferred by the partnership under section 1045. See the Instructions for Schedule D (Form 1065) for more details. A partner (other than a corporation) may be eligible to defer their distributive share of this gain under section 1045 if the partner purchases other QSB stock during the 60-day period that began on the date the QSB stock was sold by the partnership. Additional limitations apply at the partner level. Report on an attached statement to Schedule K-1 for each sale or exchange (a) the name of the corporation that issued the QSB stock, (b) the partner's share of the partnership's adjusted basis and sales price of the QSB stock, (c) the dates the QSB stock was bought and sold, and (d) the partner's distributive share of gain from the sale of the QSB stock.

Code O. Gain from sale or exchange of QSB stock with section 1202 exclusion. The section 1202 exclusion applies only to QSB stock held by the partnership for more than 5 years. Corporate partners aren't eligible for the section 1202 exclusion. Additional limitations apply at the partner level. Report each partner's share of section 1202 gain on Schedule K-1. Each partner will determine if they qualify for the section 1202 exclusion. Report on an attached statement to Schedule K-1 for each sale or exchange (a) the name of the corporation that issued the QSB stock, (b) the partner's share of the partnership's

adjusted basis and sales price of the QSB stock, and (c) the dates the QSB stock was bought and sold.

Code P. Gain or loss on disposition of farm recapture property and other items to which section 1252 applies. Gains from the disposition of farm recapture property (see Form 4797) and other items to which section 1252 applies.

Code Q. Gain or loss on Fannie Mae or Freddie Mac qualified preferred stock. The partner's distributive share of the partnership's gain or loss attributable to the sale or exchange of qualified preferred stock of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). On an attached statement, show (a) the gain or loss attributable to the sale or exchange of the qualified preferred stock, (b) the date the stock was acquired by the partnership, and (c) the date the stock was sold or exchanged by the partnership. See Rev. Proc. 2008-64, 2008-47 I.R.B. 1195, for more information.

Code R. Specially allocated ordinary gain (loss).

Code S. Non-portfolio capital gain (loss). Any gain or loss from Schedule D (Form 1065), line 7 or 15, that isn't portfolio income (for example, gain or loss from the disposition of nondepreciable personal property used in a trade or business).

Codes T through X. Reserved for future use.

Code ZZ. Other. Any other information the partners need to prepare their tax returns.

Schedule K-1. Enter each partner's distributive share of the other income categories listed earlier in box 11 of Schedule K-1. Enter the applicable code provided.

If the partnership has more than one trade or business or rental activity, identify on an attached statement to Schedule K-1 the amount from each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

Deductions

Line 12. Section 179 Deduction

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

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

The partnership must reduce the basis of the asset by the amount of the section 179 expense elected by the partnership, even if a portion of that amount can't be passed through to its partners that year and must be carried forward because of limitations at the partnership level. Don't reduce the partnership's basis in section 179 property to reflect any portion of the section 179 expense that is allocable to a partner that is a trust or estate.

Identify on an attached statement to Schedules K and K-1 the cost of section 179 property placed in service during the year that is a qualified enterprise zone property. See the Partner's Instructions for Schedule K-1 (Form 1065) for more details.

See, generally, the Instructions for Form 4562 for more details on the section 179 expense deduction.

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

Schedule K-1. Report each partner's distributive share of the section 179 expense deduction in box 12 of Schedule K-1. If the partnership has more than one trade or business activity, identify on an attached statement to Schedule K-1 the amount of section 179 deduction from each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

Don't complete box 12 of Schedule K-1 for any partner that is an estate or a trust; estates and trusts aren't eligible for the section 179 expense deduction.

Line 13a. Cash Contributions

No deduction is allowed for any contribution of \$250 or more unless the partnership obtains a written acknowledgment from the charitable organization that shows the amount of cash contributed and gives an estimate of the value of any goods or services provided in return for the contribution. The acknowledgment must be obtained by the due date (including extensions) of the partnership return or, if earlier, the date the partnership files its return. Don't attach the acknowledgment to the partnership return, but keep it with the partnership's records.

Cash contributions of any amount must be supported by a dated bank record or a written communication from the donee showing the name of the donee organization, the date of the contribution, and the amount of the contribution, for example, a receipt.

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

Code A. Cash contributions (60%). Enter cash contributions subject to the 60% AGI limitation. Don't include in the amount reported using code A the cash contributions reported using code G.

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

Schedule K-1. Report each partner's distributive share of cash charitable contributions in box 13 of Schedule K-1 using code A or B, as applicable.

Line 13b. Noncash Contributions

No deduction is allowed for any contribution of \$250 or more unless the partnership obtains a written acknowledgment from the charitable organization that describes the property contributed and gives an estimate of the value of any goods or services provided in return for the contribution. The acknowledgment must be obtained by the due date (including extensions) of the partnership return or, if earlier, the date the partnership files its return. Don't attach the acknowledgment to the partnership return but keep it with the partnership's records. These rules apply in addition to the filing requirements for Form 8283, Noncash Charitable Contributions, described below. If the deduction claimed for noncash contributions exceeds \$500, complete Form 8283 and attach it to Form 1065.

Attach a statement to Form 1065 that separately identifies the partnership's contributions for each of applicable codes C through F. See *Limits on Deductions* in Pub. 526 for information

on AGI limitations on deductions for charitable contributions. See also Pub. 561, *Determining the Value of Donated Property*, for information on noncash contributions and contributions of capital gain property.

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

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

If the partnership made a qualified conservation contribution for the preservation of a historic structure, there are additional requirements that may apply to obtain a charitable contribution deduction. This deduction may be reduced if rehabilitation credits were claimed for the historic structure. This deduction may be denied if the partnership doesn't comply with section 170(f)(19). A \$500 filing fee may apply to certain deductions over \$10,000. See the Instructions for Form 8283 and Pub. 526 for details.

Subject to three exceptions, a charitable contribution by a partnership (whether made directly or reported as an allocated portion of a contribution of another partnership) isn't treated as a qualified conservation contribution if the amount of such contribution exceeds 2.5 times the sum of each ultimate member's relevant basis (disallowance rule). See the Instructions for Form 8283, Pub. 526, and Regulations sections 1.170A-14(j) through (n) for more details and information on the three exceptions.

An "ultimate member" means, with respect to any partnership, any partner (that is not itself a partnership or S corporation) or S corporation shareholder that receives a distributive share or pro rata share, directly or indirectly, of a qualified conservation contribution. Thus, a partnership's ultimate members will be partners holding a direct interest in the partnership, partners holding an interest in an upper-tier partnership, or shareholders in an upper-tier S corporation. An upper-tier partnership or upper-tier S corporation is a partnership or S corporation that doesn't itself make the contribution, but instead receives an allocated portion of a qualified conservation contribution from another partnership.

If the disallowance rule doesn't apply to the contributing partnership because the amount of the contributing partnership's qualified conservation contribution is equal to or less than 2.5 times the sum of each ultimate member's relevant basis, then any upper-tier partnership must still determine whether the disallowance rule applies to its allocated portion of the qualified conservation contribution. Subject to the three exceptions, if an upper-tier partnership's allocated portion exceeds 2.5 times the sum of each ultimate member's relevant basis, the contribution isn't treated as a qualified conservation contribution with respect to the upper-tier partnership, any subsequent upper-tier partnership or upper-tier S corporation, or any ultimate member. No one may claim a deduction for the allocated portion attributable to that upper-tier partnership.

If an upper-tier partnership's allocated portion is equal to or less than 2.5 times the sum of each ultimate member's relevant basis, then any subsequent upper-tier partnership or upper-tier S corporation must still determine whether the disallowance rule applies to its allocated portion.

In an attachment to each Schedule K-1 issued to a partner that is an ultimate member, report the partner's relevant basis. If

the Schedule K-1 is being issued to a partner that's an upper-tier partnership or upper-tier S corporation, the attachment should include a list of the relevant basis of each ultimate member of the upper-tier partnership or upper-tier S corporation. The partnership should coordinate with each partner in calculating relevant basis. See *Qualified Conservation Contribution* in Pub. 526 and *Disallowance of deduction for certain qualified conservation contributions by partnerships and S corporations* in the Instructions for Form 8283.

Code C. Noncash contributions (50%). Enter noncash contributions subject to the 50% AGI limitation.

Qualified conservation contributions. The AGI limit for qualified conservation contributions under section 170(h) is 50%. The carryover period is 15 years. See section 170(b) and Notice 2007-50, 2007-25 I.R.B. 1430, for details. Report qualified conservation contributions with a 50% AGI limitation in box 13 of Schedule K-1 using code C. Don't include in the amount reported using code C the conservation contributions of property used in agriculture or livestock production reported on Schedule K-1 using code G. See *Qualified Conservation Contribution* in Pub. 526 and *Disallowance of deduction for certain qualified conservation contributions by pass-through entities* in the Instructions for Form 8283.

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

- The partner's distributive share of the amount of the charitable contributions made under section 170(e)(3) for qualified inventory that was donated to charitable organizations for the care of the ill, needy, and infants. The food must meet all the quality and labeling standards imposed by federal, state, and local laws and regulations. The amount of the charitable contribution for donated food inventory is the lesser of (a) the basis of the donated food plus one-half of the appreciation (gain if the donated food was sold at FMV on the date of the gift), or (b) twice the amount of basis of the donated food. A partnership that doesn't account for inventories and isn't required to capitalize indirect costs under section 263A may elect to treat the basis of the donated food as equal to 25% of the FMV of the food. See section 170(e)(3)(C) for more details.
- The partner's distributive share of the net income for the tax year from the partnership's trades or businesses that made the contribution of food inventory.

Caution: Don't include the amount of food inventory contributions in the amount reported in box 13 of Schedule K-1 using code C. These contributions must be reported separately on an attached statement because partners must separately determine the limitations on the deduction.

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

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

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

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

Code G. Contributions (100%). Use code G to report the contributions below and, on an attached statement, provide the following information.

Qualified conservation contributions of property used in agriculture or livestock production. Enter qualified

conservation contributions of property used in agriculture or livestock production. The contribution must be subject to a restriction that the property remain available for such production. See section 170(b)(1)(E)(iv) for details.

If the partnership is a qualified farmer or rancher (as defined in section 170(b)(1)(E)(v)), show each partner's distributive share of qualified conservation contributions of property used in agriculture or livestock production. Partners will have to separately determine whether they qualify for the 50% or 100% AGI limitation for these contributions. Don't include the amounts reported on the attached statement using code G in the amount reported on Schedule K-1 for qualified conservation contributions using code C.

Schedule K-1. Report each partner's distributive share of noncash charitable contributions in box 13 of Schedule K-1 using codes C through F for each of the contribution categories shown above. For code G items, report them by entering code G with an asterisk (G*) and entering "STMT" in the dollar amount entry space for box 13 and attach a statement that shows "Box 13, Code G" and the dollar amount of each type of deduction. The partnership must attach a copy of its Form 8283 to the Schedule K-1 of each partner receiving a distributive share of the contribution deduction shown in its Form 8283, Section A or Section B.

Code H. Line 13c. Investment Interest Expense

Include on this line the interest properly allocable to debt on property held for investment purposes. Property held for investment includes property that produces income from interest, dividends, annuities, or royalties not derived in the ordinary course of a trade or business. Property held for investment also includes property that produces gains not derived in the ordinary course of a trade or business from the disposition of property that produces those types of income or is held for investment.

Investment interest expense doesn't include interest expense allocable to a passive activity.

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

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

Code J. Lines 13d(1) and 13d(2). Section 59(e)(2) Expenditures

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

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

- Circulation expenditures.
- R&E expenditures.
- Intangible drilling and development costs.
- Mining exploration and development costs.

If a partner makes the election, these items aren't treated as alternative minimum tax (AMT) tax preference items. Because the partners are generally allowed to make this election, the partnership can't deduct these amounts or include them as AMT items on Schedule K-1. Instead, the partnership passes through the information the partners need to figure their separate deductions. On line 13d(1), enter the type of expenditures claimed on line 13d(2). Enter on line 13d(2) the qualified expenditures paid or incurred during the tax year for which an election under section 59(e) may apply. Enter this amount for all partners whether or not any partner makes an election under section 59(e).

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

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

Line 13e. Other Deductions

Enter deductions not included on lines 12, 13a, 13b, 13c, 13d(2), and 21. On the line to the left of the entry space for this line, identify the type of deduction. If there's more than one type of deduction, attach a statement to Form 1065 that separately identifies the type and amount of each deduction for the following categories. The codes needed for Schedule K-1 reporting are provided for each category.

Code I. Deductions—royalty income. Enter deductions related to royalty income.

Schedule K-1. Report each partner's distributive share of deductions related to royalty income.

Code K. Excess business interest expense (EBIE). If the partnership is required to file Form 8990, it may determine it has EBIE. If so, enter the amount from Form 8990, Part II, line 32, for EBIE.

Schedule K-1. Provide the information each partner needs to figure EBIE. In box 13, report the partner's distributive share of EBIE. If the partnership reports EBIE, the partner is required to file Form 8990. The partner will enter the amount in column (c) of Form 8990, Schedule A, line 43. See the Instructions for Form 8990 for additional information.

Code L. Deductions—portfolio income (other). Enter any other deductions related to portfolio income.

No deduction is allowed under section 212 for expenses allocable to a convention, seminar, or similar meeting. Because these expenses aren't deductible by partners, the partnership doesn't report these expenses on Schedule K, line 13e. The expenses are nondeductible and are reported as such on Schedule K, line 18c, and in box 18 of Schedule K-1 using code C.

Schedule K-1. In box 13, report the partner's distributive share of deductions related to portfolio income that are reported

on Schedule K, line 13e, using code I (for deductions related to royalty income) or L (for other deductions related to portfolio income).

Code M. Amounts paid for medical insurance. Enter amounts paid during the tax year for insurance that constitutes medical care for the partner (including the partner's spouse, dependents, and children under age 27 who aren't dependents).

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

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

Code P. Preproductive period expenses. If the partnership is required to use an accrual method of accounting under section 447 or is prohibited from using the cash method under section 448(a)(3), it must capitalize these expenses. If the partnership is permitted to use the cash method, enter the amount of preproductive period expenses that qualify under section 263A(d). An election not to capitalize these expenses must be made at the partner level. See *Uniform Capitalization Rules* in Pub. 225.

Code Q. Reserved for future use.

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

Code S. Reforestation expense deduction. The partnership can elect to deduct a limited amount of its reforestation expenditures paid or incurred during the tax year. The amount the partnership can elect to deduct is limited to \$10,000 for each qualified timber property. See section 194(c) for definitions of "reforestation expenditures" and "qualified timber property." The partnership must amortize over 84 months any amount not deducted. See the instructions for Form 1065, page 1, line 21, earlier. See Notice 2006-47, 2006-20 I.R.B. 892, for details on making the election.

Schedule K-1. Enter the partner's distributive share of the allowable reforestation expenses in box 13 of Schedule K-1 using code S, and attach a statement that provides a description of the qualified timber property. If the partnership is electing to deduct amounts from more than one qualified timber property, provide a description and the amount for each property.

Codes T through U. Reserved for future use.

Code V. Section 743(b) negative income adjustments. For partnerships other than PTPs, report the partner's share of net negative income resulting from all section 743(b) adjustments. For purposes of code V, "net negative income from all section 743(b) adjustments" means the excess of all section 743(b) adjustments allocated to the partner that decrease partner taxable income over all section 743(b) adjustments that increase partner taxable income. Attach a statement for line 20, code U, showing each section 743(b) basis adjustment making up the total and identify the assets to which it relates. The partnership may group these section 743(b) basis adjustments by asset category or description in cases where multiple assets are affected. See the instructions for line 20, code U.

Code W. Soil and water conservation. Enter amounts for soil and water conservation expenditures, and endangered species recovery expenditures. See section 175.

Code X. Qualified film, television, theatrical, and sound recording production expenses. The partnership can elect to deduct certain costs of a qualified film, television, live theatrical, or sound recording production commencing before tax year 2026 (after tax year 2015 and before tax year 2026 for a live theatrical production) limited to \$15 million of the aggregate production cost of the production. An annual limit applies to the deduction for qualified sound recordings; see section 181(a)(2)(C). A higher dollar limitation applies for productions in certain areas. Provide a description of the film, television, live theatrical, or sound recording production on an attached statement. If the partnership makes the election for more than one film, television, live theatrical, or sound recording production, attach a statement to Schedule K-1 that shows each partner's distributive share of the qualified expenditures separately for each production. The deduction is subject to recapture under section 1245 if the election is voluntarily revoked or the production fails to meet the requirements for the deduction. See section 181 and the related regulations for details.

Code Y. Expenditures for removal of barriers. Enter expenditures paid or incurred for the removal of architectural and transportation barriers to the elderly and disabled that the partnership has elected to treat as a current expense. See section 190.

Code Z. Itemized deductions. Enter amounts paid by the partnership that would be allowed as itemized deductions on any of the partners' income tax returns if they were paid directly by a partner for the same purpose. Don't enter expenses related to portfolio income or investment interest expense reported on Schedule K, line 13c, on this line.

Code AA. Contributions to a capital construction fund (CCF). Enter the amount of contributions made to a CCF. See Pub. 595.

Code AB. Penalty on early withdrawal of savings. Enter any penalty on early withdrawal of savings not reported on Schedule K, line 13c, because the partnership withdrew its time savings deposit before its maturity.

Code AC. Interest expense allocated to debt-financed distributions. See 2022 Pub. 535, Business Expenses, available at [IRS.gov/pub/irs-prior/p535--2022.pdf](https://www.irs.gov/pub/irs-prior/p535--2022.pdf), for more information.

Code AD. Interest expense on working interest in oil or gas. Enter interest paid or accrued on debt properly allocable to each general partner's share of a working interest in any oil or gas property (if the partner's liability isn't limited). General partners that didn't materially participate in the oil or gas activity treat this interest as investment interest; for other general partners, it's trade or business interest.

Code AE. Deductions—portfolio income. Enter the amount of deductions related to portfolio income which were formerly deductible by individuals under section 67 subject to the 2% AGI floor. For partners other than individuals, amounts that are clearly and directly allocable to portfolio income (other than investment interest expense and section 212 expenses from a REMIC) can be deducted on those partners' income tax returns.

Codes AF through AJ. Reserved for future use.

Code ZZ. Other. Any other information the partners need to prepare their tax returns.

Schedule K-1. Enter each partner's distributive share of the deduction categories listed earlier in box 13 of Schedule K-1 or provide the information required on an attached statement for the deduction.

If the partnership has more than one trade or business activity, identify on an attached statement to Schedule K-1 the

amount for each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

Self-Employment

Tip: If the partnership is an options dealer or a commodities dealer, see section 1402(i) before completing lines 14a, 14b, and 14c, to determine the amount of any adjustment that may have to be made to the amounts shown on the Worksheet for Figuring Net Earnings (Loss) From Self-Employment, later. If the partnership is engaged solely in the operation of a group investment program, earnings from the operation generally aren't self-employment earnings for either general or limited partners.

General partners. General partners' net earnings (loss) from self-employment don't include the following.

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

See the Instructions for Schedule SE (Form 1040) for more information.

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

However, whether a partner qualifies as a limited partner for purposes of self-employment tax depends on whether the partner is considered a limited partner under section 1402(a) (13).

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

Use the Worksheet for Figuring Net Earnings (Loss) From Self-Employment in these instructions.

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

Schedule K-1. Don't complete this line for any partner that is an estate, a trust, a corporation, an exempt organization, or an IRA.

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

Code B. Line 14b. Gross Farming or Fishing Income

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

Code C. Line 14c. Gross Nonfarm Income

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

Worksheet Instructions

Line 1b. Include on line 1b any part of the net income (loss) from rental real estate activities from Schedule K, line 2, that is from:

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

Line 3c. The distributive shares of limited partners aren't earnings from self-employment and aren't reported on this line.

Lines 3b and 4b. Allocate the amounts on these lines in the same way Form 1065, page 1, line 23, is allocated to these particular partners.

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

Line 4c. Guaranteed payments to general partners and limited partners for services provided to the partnership are net earnings from self-employment and are reported on this line.

Credits

Code A. Zero-Emission Nuclear Power Production Credit

The Inflation Reduction Act of 2022 created section 45U, the zero-emission nuclear power production credit, for electricity produced at a qualified nuclear power facility and sold by the taxpayer to an unrelated person in tax years beginning after tax year 2023 and before tax year 2033. For more information about the zero-emission nuclear power production credit, see Form 7213, Part II, and the Instructions for Form 7213.

Schedule K-1. Report in box 15 of Schedule K-1 each partner's distributive share of the zero-emission nuclear power production credit reported on Schedule K, line 15f, using code A.

Code B. Credit for Production From Advanced Nuclear Power Facilities

Section 45J was enacted by section 1306 of the Energy Policy Act of 2005, P.L. 109-58, title XIII, section 1306. The credit is allowed only for qualifying electricity that the taxpayer produces and sells to an unrelated person. For more information about the credit for electricity produced from advanced nuclear power

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

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

facilities, see Form 7213, Part I, and the Instructions for Form 7213.

Schedule K-1. Report in box 15 of Schedule K-1 each partner's distributive share of the credit for electricity produced from advanced nuclear power facilities reported on Schedule K, line 15f, using code B.

Low-Income Housing Credit

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

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

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

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

Schedule K-1. Report in box 15 of Schedule K-1 each partner's distributive share of the low-income housing credit reported on line 15a of Schedule K. Use code C to report credits attributable to buildings placed in service after 2007. If the partnership has credits from more than one rental activity, identify on an attached statement to Schedule K-1 the amount for each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

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

Enter on line 15b any low-income housing credit not reported on line 15a. This includes any credit reported to the partnership in box 15 of Schedule K-1 using code D.

Schedule K-1. Report in box 15 of Schedule K-1 each partner's distributive share of the low-income housing credit reported on Schedule K, line 15b. Use code D to report credits attributable to buildings placed in service after 2007. If the partnership has credits from more than one rental activity, identify on an attached statement to Schedule K-1 the amount for each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

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

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

Schedule K-1. Report each partner's distributive share of qualified rehabilitation expenditures related to rental real estate activities in box 15 of Schedule K-1 using code E. Attach a statement to Schedule K-1 that provides the information and the partner's distributive share of the amounts the partner will need to complete Form 3468, Part VII, lines 1d through 1k. See the Instructions for Form 3468 for details. If the partnership has expenditures from more than one rental real estate activity, identify on an attached statement to Schedule K-1 the amount for each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

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

Code F. Line 15d. Other Rental Real Estate Credits

Enter on line 15d any other credit (other than credits reported on lines 15a through 15c) related to rental real estate activities. On

the dotted line to the left of the entry space for line 15d, identify the type of credit. If there's more than one type of credit, attach a statement to Form 1065 that identifies the type and amount for each credit. These credits may include any type of credit listed in the instructions for line 15f.

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

Code G. Line 15e. Other Rental Credits

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

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

Line 15f. Other Credits

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

Code H. Undistributed capital gains credit. This credit represents taxes paid on undistributed capital gains by a RIC or a REIT. As a shareholder of a RIC or a REIT, the partnership will receive notice of the amount of tax paid on undistributed capital gains on Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains.

Code I. Biofuel producer credit. Complete Form 6478, if applicable, to figure the credit. Attach it to Form 1065. Include any amount shown on Form 6478, line 2, in the partnership's

income on line 7. See section 40(f) for an election the partnership can make to not have the credit apply.

Code J. Work opportunity credit. Complete Form 5884 to figure the credit. Attach it to Form 1065.

Code K. Disabled access credit. Complete Form 8826 to figure the credit. Attach it to Form 1065.

Code L. Empowerment zone employment credit. Complete Form 8844 to figure the credit. Attach it to Form 1065.

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

Note: The partnership should provide the information necessary for the partner to determine whether the partnership is an eligible small business under section 38(c)(5)(A). If the partner and the partnership meet the requirements of section 38(c)(5)(A), the research credit may be treated as a specified credit.

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

Code O. Backup withholding. This credit is for backup withholding on dividends, interest, and other types of income of the partnership.

Code P. Unused investment credit from the qualifying advanced coal project credit or qualifying gasification project credit allocated from cooperatives. See Form 3468.

Code Q. Unused investment credit from the qualifying advanced energy project credit allocated from cooperatives. See Form 3468.

Code R. Unused investment credit from the advanced manufacturing investment credit allocated from cooperatives. See Form 3468.

Code S. Unused investment credit from the clean electricity investment credit allocated from cooperatives. See Form 3468.

Code T. Unused investment credit from the energy credit allocated from cooperatives. See Form 3468.

Code U. Unused investment credit from the rehabilitation credit allocated from cooperatives. See Form 3468.

Code V. Advanced manufacturing production credit. See Form 7207.

Code W. Clean electricity production credit. See Form 7211.

Code X. Clean fuel production credit. See Form 7218.

Code Y. Clean hydrogen production credit. See Form 7210.

Code Z. Orphan drug credit. Complete Form 8820 to figure the credit, and attach it to Form 1065.

Code AA. Enhanced oil recovery credit. See Form 8830.

Code AB. Renewable electricity production credit. See Rev. Proc. 2007-65, as modified by Announcement 2009-69 and Announcement 2007-112, for a safe harbor method for allocating the credit for wind energy production. Complete Form 8835 to figure the credit. Attach a statement to Form 1065 and Schedule K-1 showing 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. Attach Form 8835 to Form 1065.

Code AC. Biodiesel, renewable diesel, or sustainable aviation fuels credit. Complete Form 8864, if applicable, to figure the credit, and attach it to Form 1065. If this credit includes the small agri-biodiesel producer credit, identify on a statement attached to Schedule K-1 (a) each partner's distributive share of

the small agri-biodiesel producer credit included in the total credit allocated to the partner, (b) the number of gallons for which the partnership claimed the small agri-biodiesel producer credit, and (c) the partnership's productive capacity for agri-biodiesel.

Code AD. New markets credit. Complete Form 8874 to figure the credit. Attach it to Form 1065.

Code AE. Small employer pension plan startup costs credit and contributions credit. Complete Form 8881, Part I, to figure the credit, and attach it to Form 1065.

Code AF. Small employer auto-enrollment credit. Complete Form 8881, Part III, to figure the credit, and attach it to Form 1065.

Code AG. Small employer military spouse participation credit. Complete Form 8881, Part IV, to figure the credit, and attach it to Form 1065.

Code AH. Credit for employer-provided childcare facilities and services. Complete Form 8882 to figure the credit, and attach it to Form 1065.

Code AI. Low sulfur diesel fuel production credit. Complete Form 8896 to figure the credit, and attach it to Form 1065.

Code AJ. Qualified railroad track maintenance credit. Complete Form 8900 to figure the credit, and attach it to Form 1065.

Code AK. Credit for oil and gas production from marginal wells. See Form 8904.

Code AL. Distilled spirits credit. See Form 8906.

Code AM. Energy efficient home credit. See Form 8908.

Code AN. Reserved for future use.

Code AO. Alternative fuel vehicle refueling property credit. See Form 8911.

Code AP. Clean renewable energy bond credit. See Form 8912. The amount of this credit (excluding any credits from other partnerships, estates, and trusts) must also be reported as interest income on Schedule K, line 5.

Code AQ. New clean renewable energy bond credit. See Form 8912. The amount of this credit (excluding any credits from other partnerships, estates, and trusts) must also be reported as interest income on Schedule K, line 5. In addition, the amount of this credit must also be reported as a cash distribution on Schedule K, line 19a.

Code AR. Qualified energy conservation bond credit. See Form 8912. The amount of this credit (excluding any credits from other partnerships, estates, and trusts) must also be reported as interest income on Schedule K, line 5. In addition, the amount of this credit must also be reported as a cash distribution on Schedule K, line 19a.

Code AS. Qualified zone academy bond credit. See Form 8912. The amount of this credit (excluding any credits from other partnerships, estates, and trusts) must also be reported as interest income on Schedule K, line 5. In addition, the amount of this credit must also be reported as a cash distribution on Schedule K, line 19a.

Code AT. Qualified school construction bond credit. See Form 8912. The amount of this credit (excluding any credits from other partnerships, estates, and trusts) must also be reported as interest income on Schedule K, line 5. In addition, the amount of this credit must also be reported as a cash distribution on Schedule K, line 19a.

Code AU. Build America bond credit. See Form 8912. The amount of this credit (excluding any credits from other

partnerships, estates, and trusts) must also be reported as interest income on Schedule K, line 5. In addition, the amount of this credit must also be reported as a cash distribution on Schedule K, line 19a.

Code AV. Credit for employer differential wage payments. See Form 8932.

Code AW. Carbon oxide sequestration credit. See Form 8933, Part III, line 8.

Code AX. Carbon oxide sequestration credit recapture. See Form 8933, Part III, line 10. Enter as a negative number.

Code AY. New clean vehicle credit. See Form 8936, Part II.

Code AZ. Credit for qualified commercial clean vehicles. See Form 8936, Part V.

Code BA. Credit for small employer health insurance premiums. See Form 8941.

Code BB. Employer credit for paid family and medical leave. See Form 8994.

Code BC. Eligible credits from transferor(s) under section 6418. Enter the total amount of eligible credits received from transferor(s) included in column (f) of the partnership's Form 3800, Part III, line 6. Also, enter the total of the partnership's distributive share of all eligible credits received from transferor(s) that were received from another pass-through entity. See required statement below.

Caution: Partnership and S corporation pass-through entities that transferred eligible credits from an unrelated person for cash under section 6418 must use Form 3800, Part III and Part V (if applicable) to report such credits. See the Instructions for Form 3800 for reporting and other requirements.

Schedule K-1. Report each partner's distributive share of all eligible credits transferred from one or more unrelated transferors pursuant to a transfer election under section 6418 in box 15 of Schedule K-1 using code BC. This amount must include the partner's distributive share of all eligible credits from transferors that were received from another pass-through entity. Enter code BC with an asterisk (BC*) and enter "STMT" in the dollar amount entry space for box 15. Attach a statement that contains the following information.

- The partner's distributive share amount of the eligible credits received from transferor(s) reported in column (f) of the partnership's Form 3800, Part III or columns (d)(3) and (f)(2) of Part V (if applicable).
- The name of the credit form of the applicable line of Part III or Part V (if applicable).
- Source information for each transferred-in credit shown on the partnership's Form 3800, Part III or Part V (if applicable), including:
 1. The IRS-issued transfer registration number in column (b) of Part III or Part V, and
 2. The transferor's EIN in column (c) of Part III or column (c)(2) of Part V.
- If a partner's distributive share includes an allocation of eligible credits purchased by a lower-tier pass-through entity and reported on Schedule K-1, you must provide the EIN of such transferee partnership or S corporation and the source information that was provided to you by such entity.

See the Instructions for Form 3800 for additional details.

Codes BD through BG. Reserved for future use.

Code ZZ. Other. Any other information the partners need to prepare their tax returns.

Section 6418 transfers of credits under section 48. If the partnership has made an election under section 6418 to transfer

a portion of a general business credit determined under section 48 to an unrelated transferee, use code ZZ to report to the partners their shares of the retained section 48 credit.

Section 6418 transfers of credits under section 48C. If the partnership has made an election under section 6418 to transfer a portion of a general business credit determined under section 48C to an unrelated transferee, use code ZZ to report to the partners their shares of the retained section 48C credit.

Section 6418 transfers of credits under section 48E. If the partnership has made an election under section 6418 to transfer a portion of a general business credit determined under section 48E to an unrelated transferee, use code ZZ to report to the partners their shares of the retained section 48E credit.

Caution: If a portion of a section 48, 48C, or 48E credit had been transferred under section 6418, don't use box 20, code E, to report the basis information for the partners' shares of the remaining credit(s).

Schedule K-1. Enter in box 15 of Schedule K-1 each partner's distributive share of the credits listed above. See additional Schedule K-1 reporting information provided in the instructions above.

If the partnership has credits from more than one activity, identify on an attached statement to Schedule K-1 the amount of each type of credit for each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

International Transactions

Line 16a. International Transactions

If the partnership had items of international tax relevance, see the Partnership Instructions for Schedules K-2 and K-3 (Form 1065) to determine if you need to attach Schedules K-2 and K-3. If you satisfy the domestic filing exception to filing Schedule K-3, you must provide notification to the partner either through an attachment to the Schedule K-1, or separately prior to filing Form 1065.

Line 16b. Schedule K-2 Filing Exception

Check this box if an exception applies. See the Partnership Instructions for Schedules K-2 and K-3 (Form 1065) for additional details.

Alternative Minimum Tax (AMT) Items

Lines 17a through 17f must be completed for all partners.

Enter items of income and deductions that are adjustments or tax preference items for the AMT. See Form 6251, *Alternative Minimum Tax—Individuals*; or Schedule I (Form 1041), *Alternative Minimum Tax—Estates and Trusts*, to determine the amounts to enter and for other information.

Don't include as a tax preference item any qualified expenditures to which an election under section 59(e) may apply. Instead, report these expenditures on Schedule K, line 13d(2). Because these expenditures are subject to an election by each partner, the partnership can't figure the amount of any tax preference related to them. Instead, the partnership must pass through to each partner in box 13, code J, of Schedule K-1 the information needed to figure the deduction.

Schedule K-1. Report each partner's distributive share of amounts reported on lines 17a through 17f (concerning AMT) in box 17 of Schedule K-1 using codes A through F, respectively. If the partnership is reporting items of income or deduction for oil, gas, and geothermal properties, you may be required to identify these items on a statement attached to Schedule K-1 (see [Oil, Gas, and Geothermal Properties Gross Income and Deductions](#),

later, for details). Also see the requirement for an attached statement in the instructions for line 17f.

Code A. Line 17a. Post-1986 Depreciation Adjustment

Figure the adjustment for line 17a based only on tangible property placed in service after 1986 (and tangible property placed in service after July 31, 1986, and before 1987 for which the partnership elected to use the General Depreciation System). Don't make an adjustment for motion picture films, videotapes, sound recordings, certain public utility property (as defined in section 168(f)(2)), property depreciated under the unit-of-production method (or any other method not expressed in a term of years), qualified Indian reservation property, property eligible for a special depreciation allowance, qualified revitalization expenditures, or the section 179 expense deduction.

For property placed in service before 1999, refigure depreciation for the AMT as follows (using the same convention used for the regular tax).

- For section 1250 property (generally, residential rental and nonresidential real property), use the straight line method over 40 years.
- For tangible property (other than section 1250 property) depreciated using the straight line method for the regular tax, use the straight line method over the property's class life. Use 12 years if the property has no class life.
- For any other tangible property, use the 150% declining balance method, switching to the straight line method the first tax year it gives a larger deduction, over the property's AMT class life. Use 12 years if the property has no class life.

Tip: See Pub. 946 for a table of class lives.

For property (except section 1250 property) placed in service after 1998, refigure depreciation for the AMT only for property depreciated for the regular tax using the 200% declining balance method. For the AMT, use the 150% declining balance method, switching to the straight line method the first tax year it gives a larger deduction, and the same convention and recovery period used for the regular tax. For section 1250 property, refigure depreciation for the AMT using the straight line method, and the same convention and recovery period used for regular tax.

Figure the adjustment by subtracting the AMT deduction for depreciation from the regular tax deduction and enter the result on line 17a. If the AMT deduction is more than the regular tax deduction, enter the difference as a negative amount. Depreciation capitalized to inventory must also be refigured using the AMT rules. Include on this line the current-year adjustment to income, if any, resulting from the difference.

Code B. Line 17b. Adjusted Gain or Loss

If the partnership disposed of any tangible property placed in service after 1986 (or after July 31, 1986, if an election was made to use the General Depreciation System), or if it disposed of a certified pollution control facility placed in service after 1986, refigure the gain or loss from the disposition using the adjusted basis for the AMT. The property's adjusted basis for the AMT is its cost or other basis minus all depreciation or amortization deductions allowed or allowable for the AMT during the current tax year and previous tax years. Enter on this line the difference between the regular tax gain (loss) and the AMT gain (loss). If the AMT gain is less than the regular tax gain, or the AMT loss is more than the regular tax loss, or there's an AMT loss and a regular tax gain, enter the difference as a negative amount.

If any part of the adjustment is allocable to net short-term capital gain (loss), net long-term capital gain (loss), or net section 1231 gain (loss), attach a statement that identifies the amount of the adjustment allocable to each type of gain or loss.

For a net long-term capital gain (loss), also identify the amount of the adjustment that is collectibles (28%) gain (loss).

For a net section 1231 gain (loss), also identify the amount of adjustment that is unrecaptured section 1250 gain.

Code C. Line 17c. Depletion (Other Than Oil and Gas)

Don't include any depletion on oil and gas wells. The partners must figure their oil and gas depletion deductions and preference items separately under section 613A.

Refigure the depletion deduction under section 611 for mines, wells (other than oil and gas wells), and other natural deposits for the AMT. Percentage depletion is limited to 50% of the taxable income from the property as figured under section 613(a), using only income and deductions for the AMT. Also, the deduction is limited to the property's adjusted basis at the end of the year as figured for the AMT. Figure this limit separately for each property. When refiguring the property's adjusted basis, take into account any AMT adjustments made this year or in previous years that affect basis (other than the current year's depletion).

Enter the difference between the regular tax and AMT deduction. If the AMT deduction is greater, enter the difference as a negative amount.

Oil, Gas, and Geothermal Properties—Gross Income and Deductions

Generally, the amounts to be entered on lines 17d and 17e are only the income and deductions for oil, gas, and geothermal properties that are used to figure the partnership's ordinary income (loss) (Form 1065, line 23).

If there are any items of income or deductions for oil, gas, and geothermal properties included in the amounts that are required to be passed through separately to the partners on Schedule K-1 (items not reported in box 1 of Schedule K-1), give each partner a statement that shows, for the box in which the income or deduction is included, the amount of income or deductions included in the total amount for that box. Don't include any of these direct pass-through amounts on line 17d or 17e.

Figure the amounts for lines 17d and 17e separately for oil and gas properties that aren't geothermal deposits and for all properties that are geothermal deposits.

Give each partner a statement that shows the separate amounts included in the computation of the amounts on lines 17d and 17e of Schedule K.

Code D. Line 17d. Oil, Gas, and Geothermal Properties—Gross Income

Enter the total amount of gross income (within the meaning of section 613(a)) from all oil, gas, and geothermal properties received or accrued during the tax year and included on page 1 of Form 1065.

Code E. Line 17e. Oil, Gas, and Geothermal Properties—Deductions

Enter any deductions allowed for the AMT that are allocable to oil, gas, and geothermal properties.

Code F. Line 17f. Other AMT Items

Attach a statement to Form 1065 and Schedule K-1 that shows other items not shown on lines 17a through 17e that are adjustments or tax preference items or that the partner needs to complete Form 6251 or Schedule I (Form 1041). See these forms and their instructions to determine the amount to enter.

Other AMT items include the following.

- Accelerated depreciation of real property under pre-1987 rules.
- Accelerated depreciation of leased personal property under pre-1987 rules.
- Long-term contracts entered into after February 28, 1986. Except for certain home construction contracts, the taxable income from these contracts must be figured using the percentage of completion method of accounting for the AMT.
- Losses from tax shelter farm activities. No loss from any tax shelter farm activity is allowed for the AMT.
- Any information needed by certain corporate partners to figure corporate AMT for tax years beginning after 2022, under section 55.

Schedule K-1. If you're reporting each partner's distributive share of only one type of AMT item under code F, enter the code with an asterisk (F*) and the dollar amount in the entry space in box 17 and attach a statement that shows the type of AMT item. If you're reporting multiple types of AMT items under code F, enter the code with an asterisk (F*) and enter "STMT" in the entry space in box 17 and attach a statement that shows the dollar amount of each type of AMT item.

Other Information

Line 18a. Tax-Exempt Interest Income

Enter on line 18a tax-exempt interest income, including any exempt-interest dividends received from a mutual fund or other RIC.

Line 18b. Other Tax-Exempt Income

Enter on line 18b all income of the partnership exempt from tax other than tax-exempt interest.

Tax-exempt income from transfer election. Enter the total consideration received by the transferor partnership as a result of a transfer election under section 6418. If the partnership is allocated tax-exempt income from a pass-through entity (or lower-tier pass-through entity) making a transfer election to transfer its credits, include those amounts in code B as well.

Tax-exempt income from elective payment election. Enter the amount from Form 1065, page 1, line 29. This is the total amount of credits determined by the partnership for which an elective payment election is being made.

Schedule K-1.

Tax-exempt income from transfer election. Include the partner's distributive share of tax-exempt income allocated by the transferor partnership related to proceeds received by the partnership as a result of the partnership making a transfer election to transfer its credits under section 6418. Also include

the partner's distributive share of allocations made to the transferor partnership from a pass-through entity for which it was a partner related to the pass-through entity (or lower-tier pass-through entity) making a transfer election to transfer its credits.

Tax-exempt income from elective payment election.

Include the partner's distributive share of tax-exempt income as a result of the partnership making an elective payment election under section 6417. Also include the partner's distributive share of allocations to the partnership from a pass-through entity (or lower-tier pass-through entity) that made an elective payment election.

Line 18c. Nondeductible Expenses

Enter on line 18c nondeductible expenses paid or incurred by the partnership.

Payments made by transferee partnerships to eligible taxpayers for the purchase of eligible credits as a result of a transfer election under section 6418 are treated as nondeductible expenses and are reported on this line. Don't include separately stated deductions shown elsewhere on Schedules K and K-1, capital expenditures, or items the deduction for which is deferred to a later tax year.

Schedule K-1. Report in box 18 of Schedule K-1 each partner's distributive share of amounts reported on lines 18a, 18b, and 18c of Schedule K (concerning items affecting partners' bases) using codes A through C, respectively. Attach a statement to Schedule K-1 for the amounts included on line 18b that are exempt by reason of section 892, and describe the nature of the income.

Lines 19a and 19b. Distributions of Cash and Marketable Securities and Distributions of Other Property

Line 19a. Enter the distributions of cash (including deemed distributions of money under section 752(b)) and marketable securities made to the partners by combining amounts reported using codes A, D, and F. For marketable securities, report their FMVs on the date of distribution reduced (but not below zero) by the reduction amount in section 731(c)(3)(B).

The reduction amount equals (i) a distributee partner's distributive share of the net gain, if any, which would be recognized had the partnership sold all the marketable securities held by the partnership for FMV immediately before the distribution, minus (ii) the distributee partner's distributive share of the net gain, if any, which would be attributable to the marketable securities held by the partnership immediately after the distribution, using the same FMVs. See section 731(c)(3) and Regulations section 1.731-2 for additional exceptions to treating marketable securities as money.

If the amount on line 19a includes marketable securities treated as money, state separately on an attached statement to Schedules K and K-1 (a) the partnership's adjusted basis of those securities immediately before the distribution, and (b) the FMV of those securities on the date of distribution (reduced by the reduction amount).

Line 19b. Enter the distributions of property to partners not reported on line 19a by combining amounts reported using codes B, C, and G. In figuring the amount of the distribution to report using codes B, C, and G, use the adjusted basis of the property to the partnership immediately before the distribution, taking into account any adjustments under section 732(d), 734(b), or 743(b), as applicable. In addition, attach a statement

to Schedules K and K-1 showing the adjusted basis and FMV of each property distributed for each relevant code.

Schedule K-1. Report in box 19 each partner's distributions and corresponding codes as explained below. Report separately distributions of cash and marketable securities to partners not providing services (code A), distributions of section 737 property (code B), distributions of property (other than cash, marketable securities, and section 737 property) (code C), deemed distributions of money under section 752(b) (code D), certain distributions of cash and marketable securities to partners providing services (code F), and certain distributions of property (other than cash, marketable securities, and section 737 property) to partners providing services (code G). For some distributions, the partnership must attach a statement. In those cases, enter an asterisk (*) and "STMT" after the applicable code and attach the required statement to Schedule K-1.

Code A. Distributions of cash and marketable securities to non-service partners. Use code A to report separately distributions of cash and marketable securities to partners not providing services to the partnership. Don't include under code A amounts reported using codes D and F.

Code B. Distributions subject to section 737. If a partner contributed section 704(c) built-in gain property to the partnership within the last 7 years and the partnership during the tax year made a distribution of property to that partner other than the previously contributed built-in gain property, report using code B the adjusted basis of the distributed property to the partnership immediately before the distribution, taking into account any adjustments under section 732(d), 734(b), or 743(b), as applicable. Also, attach a statement to the distributee partner's Schedule K-1 providing the following information.

- The FMV of the distributed property (other than money).
- The amount of money (if any) received in the distribution.
- The net precontribution gain of the partner. This is the net gain (if any) that would have been recognized by the distributee partner under section 704(c)(1)(B) if all the following property had been distributed by the partnership to another partner. This property includes all property contributed by the distributee partner during the 7 years prior to the distribution and that is still held by the partnership at the time of the distribution; see section 737.

For more information, see [Recognition of Precontribution Gain on Certain Partnership Distributions](#), earlier.

Code C. Other property. Include all distributions of property that aren't (i) included on line 19a of Schedule K, (ii) section 737 property reported using code B, and (iii) property described under code G.

Code D. Deemed distributions of money—decreases in partner's share of liabilities. Use code D to report any deemed distribution of money resulting from a decrease in the partner's share of partnership liabilities and a decrease in the partner's individual liabilities by reason of the partnership's assumption of the individual liabilities of the partner as determined under section 752(b) for the current tax year. Liabilities for this purpose include both recourse and nonrecourse liabilities. See Regulations section 1.752-1 for additional information.

If, as part of a single transaction, a partner incurs both an increase and a decrease in the partner's share of the partnership liabilities (or the partner's individual liabilities), then only the net decrease is treated as a distribution of money from the partnership and the net increase is treated as a contribution of money. See Regulations section 1.752-1(f).

Code E. Reserved for future use.

Codes F and G. Distributions to partners performing services. Use code F to report any distributions of cash or marketable securities and code G to report any distributions of property (other than cash, marketable securities, and section

737 property) to a partner if (i) the partner performed services for the partnership; (ii) the partnership allocated income and distributed cash, marketable securities, or other property to the partner; and (iii) the partnership treated the transaction as a distribution to a partner.

Exception—payments reported as fees. Don't use code F or G to report payments for services the partnership made to a partner acting in a non-partner capacity, that is, as a transaction occurring between the partnership and one who is not a partner. Instead, report the results of the transaction in accordance with section 707(a)(1). For example, a payment made for services under section 707(a)(2)(A) would be treated as occurring between a partnership and one who isn't a partner. Section 707(a)(2)(A) applies to a partner who performs services for a partnership when there is a related direct or indirect allocation and distribution to the partner and the performance of such services and the allocation and distribution, when viewed together, are properly characterized as a transaction occurring between the partnership and one who isn't a partner.

Exception—guaranteed payments. Don't use code F or G to report guaranteed payments to partners for services as provided under section 707(c). Instead, report them on line 4a.

Lines 20a and 20b. Investment Income and Expenses

Code A. Investment income. Enter on line 20a the investment income included on Schedule K, lines 5, 6a, 7, and 11. Don't include other portfolio gains or losses on this line.

Investment income includes gross income from property held for investment, the excess of net gain attributable to the disposition of property held for investment over net capital gain from the disposition of property held for investment, any net capital gain from the disposition of property held for investment that each partner elects to include in investment income under section 163(d)(4)(B)(iii), and any qualified dividend income that the partner elects to include in investment income. Generally, investment income and investment expenses don't include any income or expenses from a passive activity. See Regulations section 1.469-2(f)(10) for exceptions.

Property subject to a net lease isn't treated as investment property because it's subject to the passive loss rules. Don't reduce investment income by losses from passive activities.

Code B. Investment expenses. Enter investment expenses on line 20b. Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income. See the Instructions for Form 4952 for more information.

Schedule K-1. Report each partner's distributive share of amounts reported on lines 20a and 20b (investment income and expenses) in box 20 of Schedule K-1 using codes A and B, respectively.

If there are other items of investment income or expense included in the amounts that are required to be passed through separately to the partners on Schedule K-1, such as net short-term capital gain or loss, net long-term capital gain or loss, and other portfolio gains or losses, give each partner a statement identifying these amounts.

Line 20c. Other Items and Amounts

Report the following information on a statement attached to Form 1065. On Schedule K-1, enter the appropriate code in box 20 for each information item followed by an asterisk in the left-hand column of the entry space (for example, C*). In the right-hand

column, enter "STMT." The codes are provided in the headings of the following information categories.

Code C. Fuel tax credit information. Report the number of gallons of each fuel sold or used during the tax year for a nontaxable use qualifying for the credit for taxes paid on fuel, type of use, and the applicable credit per gallon. See Form 4136, Credit for Federal Tax Paid on Fuels, and its instructions for details.

Code D. Qualified rehabilitation expenditures (other than rental real estate). Enter total qualified rehabilitation expenditures from activities other than rental real estate activities. See the Instructions for Form 3468 for details on qualified rehabilitation expenditures.

Note: Report qualified rehabilitation expenditures related to rental real estate activities on Schedule K, line 15c.

Schedule K-1. Report each partner's distributive share of qualified rehabilitation expenditures related to activities other than rental real estate activities in box 20 of Schedule K-1 using code D. Attach a statement to Schedule K-1 that provides the information and the partner's distributive share of the amounts the partner will need to complete Form 3468, Part VII, lines 1d through 1k. See the Instructions for Form 3468 for details. If the partnership has expenditures from more than one activity, identify on a statement attached to Schedule K-1 the amount for each separate activity. See [Passive Activity Reporting Requirements](#), earlier.

Code E. Basis of energy property. See the Instructions for Form 3468 for details on basis of energy property. In box 20 of Schedule K-1, enter code E followed by an asterisk (E*) and enter "STMT" in the entry space for the dollar amount. Attach a statement to Schedule K-1 that provides the information and the partner's distributive share of the amounts the partner will need to figure the amounts to report on Form 3468, Part VI, lines 1a, 3a, 3e, 5a, 5c, 5f, 5o, 7a, 7j, 9a, 9b, 11d, 11h, 13a, 15a, 17a, 17e, 19a, 21a, 23a, 23e, 25a, 25d, 25g, 25j, and 28a. See the Instructions for Form 3468 for details.

Caution: This code and the partners' distributive shares should not include any investment credits for which a transfer election was made by the partnership under section 6418. See [Code ZZ, Other](#) under *Line 15f*, earlier.

Codes F and G. Recapture of low-income housing credit. If recapture of part or all of the low-income housing credit is required because (a) the prior-year qualified basis of a building decreased, or (b) the partnership disposed of a building or part of its interest in a building, see Form 8611, Recapture of Low-Income Housing Credit. Complete Form 8611, lines 1 through 7, to determine the amount of credit to recapture. Use code F on Schedule K-1 to report recapture of the low-income housing credit from a section 42(j)(5) partnership. Use code G to report recapture of any other low-income housing credit. See the instructions for lines 15a and 15b, earlier, for more information.

Tip: If a partner's ownership interest in a building decreased because of a transaction at the partner level, the partnership must provide the necessary information to the partner to enable the partner to figure the recapture.

Caution: The disposal of a building or an interest therein will generate a credit recapture unless it's reasonably expected that the building will continue to be operated as a qualified low-income building for the remainder of the building's compliance period.

See Form 8586, Form 8611, and section 42 for more information.

Code H. Recapture of investment credit. Complete and attach Form 4255 when investment credit property is disposed of, or it no longer qualifies for the credit, before the end of the recapture period or the useful life applicable to the property. State the type of property at the top of Form 4255, and complete Part II, lines 2, 3, 4, 10, and 11, whether or not any partner is subject to recapture of the credit.

Attach to each Schedule K-1 a separate statement providing the information the partnership is required to show on Form 4255, but list only the partner's distributive share of the cost of the property subject to recapture. Also indicate the lines of Form 4255 on which the partners should report these amounts.

Code I. Recapture of other credits. On an attached statement to Schedule K-1, provide any information partners will need to report recapture of credits (other than recapture of low-income housing and investment credits reported on Schedule K-1 using codes F, G, and H). Examples of credits reported using code I when subject to recapture include the following.

- The new markets credit. See Form 8874 and Form 8874-B, Notice of Recapture Event for New Markets Credit, for details.
- The credit for employer-provided childcare facilities and services. See section 45F(d).
- The alternative motor vehicle credit. See section 30B(h)(8).
- The alternative fuel vehicle refueling property credit. See section 30C(e)(5).
- The clean vehicle credit. See section 30D(f)(5).

Code J. Look-back interest—completed long-term contracts. If the partnership is closely held (defined in section 460(b)(4)(C)) and it entered into any long-term contracts after February 28, 1986, that are accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method, it must attach a statement to Form 1065 showing the information required in items (a) and (b) of Form 8697, Part II, lines 1 and 3. It must also report the amounts for Part II, lines 1 and 3, to its partners. See the Instructions for Form 8697 for more information.

Code K. Look-back interest—income forecast method. If the partnership is closely held (defined in section 460(b)(4)(C)) and it depreciated certain property placed in service after September 13, 1995, under the income forecast method, it must attach to Form 1065 the information specified in the instructions for Form 8866, line 2, for the 3rd and 10th tax years beginning after the tax year the property was placed in service. It must also report the line 2 amounts to its partners. See the Instructions for Form 8866 for more details.

Code L. Dispositions of property with section 179 deductions. This represents gain or loss on the sale, exchange, or other disposition of property for which a section 179 deduction has been passed through to partners. The partnership must provide all the following information related to such dispositions (see the instructions for page 1, line 6, earlier).

- Description of the property.
- Date the property was acquired and placed in service.
- Date of the sale or other disposition of the property.
- The partner's share of the gross sales price or amount realized.
- The partner's share of the cost or other basis plus expense of sale (reduced as explained in the instructions for Form 4797, line 21).
- The partner's share of the depreciation allowed or allowable, determined as described in the instructions for Form 4797, line 22, but excluding the section 179 deduction.
- The partner's share of the section 179 deduction (if any) passed through for the property and the partnership's tax year(s) in which the amount was passed through.

- If the disposition is due to a casualty or theft, a statement indicating so, and any additional information needed by the partner.
- For an installment sale, any information the partner needs to complete Form 6252. The partnership must also separately report the partner's share of all payments received for the property in future tax years. (Installment payments received for sales made in prior tax years should be reported in the same manner used in prior tax years.) See the instructions for Form 6252 for details.

Code M. Recapture of section 179 deduction. This amount represents recapture of the section 179 deduction if business use of the property dropped to 50% or less before the end of the recapture period. If the business use of any property (placed in service after 1986) for which a section 179 deduction was passed through to partners dropped to 50% or less (for a reason other than disposition), the partnership must provide all the following information.

- The partner's distributive share of the original basis and depreciation allowed or allowable (not including the section 179 deduction).
- The partner's distributive share of the section 179 deduction (if any) passed through for the property and the partnership's tax year(s) in which the amount was passed through.

See Regulations section 1.179-1(e) for details.

Code N. Business interest expense (BIE). The partnership must determine the amount of deductible BIE included on other lines of the Schedule K. Attach a statement to Schedule K providing the allocation of the deductible BIE included on other lines of Schedule K. EBIE isn't deductible BIE; therefore, don't include it in this reported amount for tax years beginning after November 12, 2020.

Schedule K-1. For tax years beginning after November 12, 2020, enter the partner's amount of deductible BIE for inclusion in the separate loss class for computing any basis limitation (defined in section 704(d) and Regulations section 1.163(j)-6(h)). Also attach a statement to Schedule K-1 providing the allocation of the BIE already deducted by the partnership on other lines of Schedule K-1 by line number. Don't include EBIE reported in box 13, code K.

Code O. Section 453(l)(3) information. Supply any information needed by a partner to figure the interest due under section 453(l)(3). If the partnership elected to report the dispositions of certain timeshares and residential lots on the installment method, each partner's tax liability must be increased by the partner's distributive share of the interest on tax attributable to the installment payments received during the tax year.

Code P. Section 453A(c) information. Supply any information needed by a partner to figure the interest due under section 453A(c); see Pub. 537, Installment Sales, for additional information. This information must include the following from each Form 6252 where the partner's share of the selling price, including mortgages and other debts, is greater than \$150,000.

- Description of property.
- Date acquired.
- Date property sold.
- Selling price, including mortgages and other debts, not including interest, whether stated or unstated.
- Mortgages, debts, and other liabilities the buyer assumed or took the property subject to.
- Gross profit.
- Contract price.
- Gross profit percentage.

- Current-year payments and deemed payments received during the year, not including interest whether stated or unstated.
- Origination-year payments and deemed payments received during the year, not including interest whether stated or unstated.
- Prior-year payments, not including interest whether stated or unstated.
- Installment sale income.
- Character of the income—capital or ordinary.

See section 453A(c) for information on how to compute the interest charge on the deferred tax liability. The section 453A interest charge is reported on the “Other taxes” line of your tax return. See *Interest on Deferred Tax* in Pub. 537 for additional details on how to compute the section 453A(c) interest.

Code Q. Section 1260(b) information. Supply any information needed by a partner to figure the interest due under section 1260(b). If the partnership had gain from certain constructive ownership transactions, each partner’s tax liability must be increased by the partner’s distributive share of interest due on any deferral of gain recognition. See section 1260(b) for details, including how to figure the interest.

Code R. Interest allocable to production expenditures. Supply any information needed by a partner to properly capitalize interest as required by section 263A(f). See [Section 263A uniform capitalization rules](#), earlier, for more information.

Code S. CCF nonqualified withdrawal. Report nonqualified withdrawals by the partnership from a CCF to partners. See Pub. 595.

Code T. Depletion information—oil and gas. Report gross income and other information relating to oil and gas well properties to partners to allow them to figure the depletion deduction for oil and gas well properties. Allocate to each partner a proportionate share of the adjusted basis of each partnership oil or gas property. See section 613A(c)(7)(D) for details.

The partnership can’t deduct depletion on oil and gas wells. Each partner must determine the allowable amount to report on their return. See the 2022 Pub. 535, available at [IRS.gov/pub/irs-prior/p535--2022.pdf](#), for more information.

Code U. Section 743(b) basis adjustment. Report the total section 743(b) adjustment net of any cost recovery as a single amount for all asset categories for each partner. In addition, attach a statement to the Schedule K-1 for this code showing the amount of each remaining section 743(b) basis, net of cost recovery by asset category. A reasonable grouping by asset category may be used, but such grouping shouldn’t be less detailed than the asset categories listed on the Form 1065, Schedule L, balance sheet. Go to [IRS.gov/Forms-Pubs/Clarifications-for-disregarded-entity-reporting-and-section-743b-reporting](#) for more information.

Code V. Unrelated business taxable income (UBTI). Report any information a partner that is a tax-exempt organization may need to figure its share of UBTI under section 512(a)(1) (but excluding any modifications required by paragraphs (8) through (15) of section 512(b)). Partners are required to notify the partnership of their tax-exempt status. See Form 990-T, Exempt Organization Business Income Tax Return; and Pub. 598, Tax on Unrelated Business Income of Exempt Organizations, for more information.

If the partner is an IRA, include the IRA partner’s unique EIN on line 20, code AR.

Note: For tax year 2025, PTPs aren’t required to include the IRA partner’s unique EIN on line 20, code AR.

Code W. Precontribution gain (loss). If the partnership distributed any section 704(c) property to any partner other than the contributing partner, and the date of the distribution was within 7 years of the date the section 704(c) property was contributed to the partnership, the distribution must be treated as if it were a sale by the contributing partner taking place on the date of the distribution. Section 704(c) property is property that had an FMV that was either greater or less than the contributing partner’s adjusted basis at the time the property was contributed to the partnership. See [Dispositions of Contributed Property](#), earlier, for more information. If the partnership made such a distribution during its tax year, attach a statement to the contributing partner’s Schedule K-1 that provides the following information.

- The amount of the gain or loss that would have been allocated to the contributing partner if the partnership had sold the section 704(c) property at its FMV at the time of the distribution. See section 704(c)(1)(B) for details.
- The character of the gain or loss that would have resulted if the partnership had sold the section 704(c) property to the distributee partner.

Enter code W in box 20 of Schedule K-1 with an asterisk (W*) and enter “STMT,” and attach the required statement.

Code X. Payment obligations including guarantees and deficit restoration obligations (DROs). If the box in item K3 is checked, in box 20 of Schedule K-1, enter code X followed by an asterisk (X*) and enter “STMT” in the entry for dollar amount. On the attached statement, provide the aggregate ending balance of the partner’s or related person’s payment obligations and identify the ending balance of each payment obligation that is included in the aggregate amount. For purposes of box 20, code X, a “payment obligation” is defined as an obligation under Regulations section 1.752-2(b)(1) that is recognized under Regulations sections 1.752-2(b)(3)(i)(A) and (B) (such as a recognized guarantee or an obligation to restore a deficit capital account upon liquidation), and a “related person” is defined as a related person as defined in Regulations section 1.752-4(b).

The following examples assume that the described partnership liabilities are properly allocable to the partner in the examples under the rules of section 752.

Example 1. In Year 1, a partnership borrows \$1,000 (PS Liability 1) from Bank 1 and \$1,000 (PS Liability 2) from Bank 2. A partner guarantees payment of up to \$500 of PS Liability 1 if any amount of the full \$1,000 isn’t recovered by Bank 1 and lends \$200 to the partnership, and a person related to the partner guarantees payment of the entire amount of PS Liability 2 of \$1,000. The partnership enters \$1,700 as the ending balance of the partner’s share of recourse liabilities in item K1 of the Schedule K-1 for tax Year 1. For tax Year 1, the partnership would enter \$1,500 in box 20 under code X as the aggregate ending balance of the partner’s or related person’s payment obligations. On the attached statement, the partnership would separately identify each of the partner’s or related person’s payment obligations (for example, \$500 with respect to the partner’s guarantee of PS Liability 1 and \$1,000 with respect to the related person’s guarantee of PS Liability 2).

Example 2. Assume the same facts as in *Example 1*, except that, instead of loaning \$200 to the partnership, the partner has a \$100 DRO and a \$20 negative tax capital account and the partnership enters \$1,520 as the ending balance of the partner’s share of recourse liabilities in item K1 of the Schedule K-1 for tax Year 1. For tax Year 1, the partnership would enter \$1,520 in box 20 under code X as the aggregate ending balance of the partner’s or related person’s payment obligations. On the attached statement, the partnership would separately identify each of the partner’s or related person’s payment obligations (for example, \$500 with respect to the partner’s guarantee of PS

Liability 1, \$1,000 with respect to the related person's guarantee of PS Liability 2, and \$20 with respect to the partner's DRO).

Code Y. Net investment income. Use code Y to report any information that may be relevant for partners to figure their NIIIT when the information isn't otherwise identifiable elsewhere on Schedule K-1. Attach a statement that shows a description and dollar amount of each relevant item.

Examples of items reported using code Y may include the following.

- Net rental real estate income reported on Form 1065, Schedule K, line 2, and other net rental income reported on Form 1065, Schedule K, line 3c, derived from a section 212 for-profit activity (and not from a section 162 trade or business).
- Gains and losses from dispositions of assets attributable to a section 212 for-profit activity (and not from a section 162 trade or business).
- Gain reported on the installment sale basis (or attributable to a private annuity) that is attributable to the disposition of property held in a trade or business.
- Gain or loss from the disposition of a partnership interest, but only if such partnership was engaged, directly or indirectly, in one or more trades or businesses, and at least one of those trades or businesses wasn't trading in financial instruments or commodities.
- The partner's distributive share of interest income, or interest expense, which is attributable to a loan between the partnership and the partner (self-charged interest).
- If the partnership received a Schedule K-1 (Form 1065), the detail and amounts reported to the partnership in box 20 using code Y.
- If the partnership received a Schedule K-1 (Form 1041), the amount of the adjustment reported.
- Guaranteed payments (reported on Form 1065, Schedule K, line 4b) unrelated to services, such as for the use of capital or attributable to section 736(a)(2) payments for unrealized receivables or goodwill.
- In the case of a common trust fund, any items of income or loss that may be taken into account in figuring the participant's net investment income (other than qualified dividends, and short-term and long-term capital gains).
- Gain from a trade or business of trading in securities or commodities for which the partnership has elected under section 475(f) to mark to market the securities, the commodities, or both.

In addition, Regulations section 1.1411-10 provides special rules for stock of CFCs and PFICs owned by the partnership. If the partnership directly or indirectly owns stock of a CFC or PFIC, then additional reporting may be required under code Y.

CFCs and QEFs. In the case of stock of CFCs and QEFs directly or indirectly owned by the partnership, the partnership must provide the name and EIN (if one has been issued) for each CFC and QEF the stock of which is owned by the partnership for which an election under Regulations section 1.1411-10(g) isn't in effect and for which the partnership isn't engaged in a trade or business described in section 1411(c)(2). For each of these entities, the partnership must provide the following information on an entity-by-entity basis (to the extent such information isn't otherwise identifiable elsewhere on Schedule K-3).

- Section 951(a) inclusions.
- Section 1293(a)(1)(A) inclusions.
- Section 1293(a)(1)(B) inclusions.
- Section 959(d) distributions subject to section 1411.
- Section 1293(c) distributions subject to section 1411.
- Amount of gain or loss derived from dispositions of the stock of CFCs and QEFs that is taken into account for section 1411 purposes.

- Amounts that are derived from the disposition of the stock of CFCs and QEFs and included in income as dividends under section 1248 for section 1411 purposes.

In the case of stock of CFCs and QEFs directly or indirectly owned by the partnership for which an election under Regulations section 1.1411-10(g) is in effect, the partnership must provide the following information (to the extent such information isn't otherwise identifiable elsewhere on Schedule K-3) on either an aggregate basis or an entity-by-entity basis.

- Section 951(a) inclusions.
- Section 1293(a)(1)(A) inclusions.
- Section 1293(a)(1)(B) inclusions.

In the case of stock of CFCs and QEFs directly or indirectly owned by the partnership with respect to which the partnership is engaged in a trade or business described in section 1411(c)(2), the partnership must provide the following information (to the extent such information isn't otherwise identifiable elsewhere on Schedule K-3) on either an aggregate or an entity-by-entity basis, or the partnership may aggregate this information with other income derived by the partnership that is net investment income under section 1411(c)(1)(A)(ii).

- Section 951(a) inclusions.
- Section 1293(a)(1)(A) inclusions.
- Section 1293(a)(1)(B) inclusions.

Section 1296 mark-to-market PFICs. In the case of stock of PFICs directly or indirectly owned by the partnership for which an election under section 1296 is in effect, the partnership must provide the following information (to the extent such information isn't otherwise identifiable elsewhere on Schedule K-3) on either an aggregate basis or an entity-by-entity basis (except as provided below).

- Amounts included in income under section 1296(a)(1).
- Amounts deducted from income under section 1296(a)(2).

In the case of PFIC stock owned directly or indirectly by the partnership for which an election under section 1296 is in effect and with respect to which the partnership is engaged in a trade or business described in section 1411(c)(2), the partnership may aggregate this information with other income derived by the partnership that is net investment income under section 1411(c)(1)(A)(ii).

Section 1291 funds. In the case of stock of PFICs directly or indirectly owned by the partnership with respect to which direct or indirect partners are subject to section 1291, the partnership must provide the following information (to the extent such information isn't otherwise identifiable elsewhere on Schedule K-3) on an entity-by-entity basis.

- Excess distributions made by a PFIC for which a partner is subject to section 1291.
- Gains derived from the disposition of stock of a PFIC for which a partner is subject to section 1291.

Code Z. Section 199A information. The qualified business income (QBI) deduction may be taken by eligible taxpayers, including individuals and some trusts and estates. The deduction is determined at the partner level. Partnerships are required to report information necessary for their partners to figure the deduction. Use code Z with an asterisk (Z*) on each partner's Schedule K-1 and enter "STMT" in the entry space to indicate that the information is provided on an attached statement that separately identifies the partner's distributive share of:

- Qualified items of income, gain, deduction, and loss;
- W-2 wages;
- Unadjusted basis immediately after acquisition (UBIA) of qualified property;
- Qualified PTP items; and
- Qualified REIT dividends.

The partnership must make an initial determination of which items are qualified items of income, gain, deduction, and loss at its level and report to each partner its distributive share of all items that may be qualified items at the partner level. These items must be separately stated where necessary for the partner to figure the deduction. See [Determining the partnership's QBI or qualified PTP items](#), later. The partner must then determine whether each item is includible in QBI.

In addition, the partnership must also report whether any of its trades or businesses are specified service trades or businesses (SSTBs) and identify on the statement any trades or businesses that are aggregated. The partnership must also report all QBI information reported to it by any entity in which the partnership has an ownership interest.

Note: The partnership must report each partner's share of qualified items of income, gain, deduction, and loss from a PTP so that partners can determine their qualified PTP income. However, the W-2 wages and UBIA of qualified property from the PTP shouldn't be reported because partners can't use that information in figuring their QBI deduction.

Partnerships should use Statement A—QBI Pass-Through Entity Reporting, later, or a substantially similar statement, to report information for each partner's distributive share from each trade or business, including QBI items, W-2 wages, UBIA of qualified property, qualified PTP items, and qualified REIT dividends by attaching the completed statement(s) to each partner's Schedule K-1. The partnership should also use Statement A to report each partner's distributive share of QBI items, W-2 wages, UBIA of qualified property, qualified PTP items, and qualified REIT dividends reported to the partnership by another entity.

Partnerships should use Statement B—QBI Pass-Through Entity Aggregation Election(s), later, or a substantially similar statement, to report aggregated trades or businesses and provide supporting information to partners on each Schedule K-1.

Partnerships should use Statement C—QBI Pass-Through Entity Reporting—Patrons of Specified Agricultural and Horticultural Cooperatives, later, or a substantially similar statement, to report the distributive share of QBI and W-2 wages allocable to qualified payments from a specified agricultural or horticultural cooperative for each trade or business. This statement should also be used to report each partner's share of section 199A(g) deduction reported to the partnership by the specified cooperative.

Determining the partnership's qualified trades or businesses. The partnership's qualified trades or businesses include its section 162 trades or businesses, except for SSTBs, or the trade or business of providing services as an employee. A section 162 trade or business generally includes any activity if the partnership's primary purpose for engaging in the activity is for income or profit and the partnership is involved in the activity with continuity and regularity. For more information on what qualifies as a trade or business for purposes of section 199A, see the Instructions for Form 8995, Qualified Business Income Deduction Simplified Computation; or the Instructions for Form 8995-A, Qualified Business Income Deduction.

Rental real estate. Rental real estate may constitute a trade or business for purposes of the QBI deduction if the rental real estate:

- Rises to the level of a trade or business under section 162,
- Satisfies the requirements for the rental real estate safe harbor in Rev. Proc. 2019-38, or
- Meets the self-rental exception (that is, the rental or licensing of property to a commonly controlled trade or business conducted by an individual or relevant

pass-through entity) described in Regulations section 1.199A-1(b)(14).

The determination of whether rental real estate constitutes a trade or business for purposes of the QBI deduction is made by the partnership. The partnership must first make this determination and then only include the distributive share of rental real estate items of income, gain, loss, and deduction from a trade or business on the statement provided to partners. Rental real estate that doesn't meet any of the three conditions noted above doesn't constitute a trade or business for purposes of the QBI deduction and must not be included in the QBI information provided to partners.

SSTBs excluded from qualified trades or businesses.

SSTBs are generally excluded from the definition of a qualified trade or business. An SSTB is any trade or business providing services in the field of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, investing and investment management, trading or dealing in securities, partnership interests, or commodities, or any other trade or business where the principal asset is the reputation or skill of one or more of its employees or owners. The term "any trade or business where the principal asset is the reputation or skill of one or more of its employees or owners" means any trade or business that consists of (a) a trade or business in which a person receives fees, compensation, or other income from endorsing products or services; (b) a trade or business in which a person licenses or receives fees, compensation, or other income for the use of an individual's image, likeness, name, signature, voice, or trademark, or any other symbols associated with the individual's identity; or (c) receiving fees, compensation, or other income for appearing at an event or on radio, television, or another media format.

Partnerships must separately report QBI information for all trades or businesses engaged in by the partnership, including SSTBs, but must identify which trades or businesses are SSTBs.

Aggregation of trades or businesses. A partnership engaged in more than one trade or business may choose to aggregate multiple trades or businesses into a single trade or business for purposes of section 199A if it meets the following requirements.

1. The same person, or group of persons, either directly or through attribution, owns 50% or more of each trade or business for a majority of the tax year, including the last day of the tax year, and all trades or businesses use the same tax year-end.
2. None of the trades or businesses are SSTBs.
3. The trades or businesses to be aggregated meet at least two of the following three factors.
 - a. They provide products, property, or services that are the same or that are customarily offered together.
 - b. They share facilities or share significant centralized business elements, such as personnel, accounting, legal, manufacturing, purchasing, human resources, or information technology resources.
 - c. They're operated in coordination with, or reliance on, one or more of the businesses in the aggregated group.

If the partnership chooses to aggregate multiple trades or businesses, it must report the aggregation on Statement B, or a substantially similar statement, and attach it to each Schedule K-1. The statement must provide the information necessary to identify each separate trade or business included in each aggregation, a description of the aggregated trades or businesses, and an explanation of the factors met that allow the aggregation in accordance with Regulations section 1.199A-4. The aggregation statement must be completed each year to

show the partnership's trade or business aggregations. Failure to disclose the aggregations may cause them to be disaggregated.

The partnership's aggregations must be reported consistently for all subsequent years, unless there's a change in facts and circumstances that changes or disqualifies the aggregation. The partnership must provide a written explanation for any changes to prior-year aggregations that describes the change in facts and circumstances.

If the partnership directly or indirectly owns an interest in another relevant pass-through entity (RPE) that aggregates multiple trades or businesses, it must attach a copy of the RPE's aggregation to each Schedule K-1. The partnership can't break apart the aggregation of another RPE, but it may add trades or businesses to the aggregation, assuming the requirements above are satisfied.

Determining the partnership's QBI or qualified PTP items. The partnership's items of QBI include qualified items of income, gain, deduction, and loss from the partnership's trades or businesses that are effectively connected with the conduct of a trade or business within the United States. This may include, but isn't limited to, items such as ordinary business income or losses, section 1231 gains or (losses), section 179 deductions, and interest from debt-financed distributions.

QBI may also include rental income/losses or royalty income, if the activity rises to the level of a trade or business; and gambling gains or losses, but only if the partnership is engaged in the trade or business of gambling. Whether an activity rises to the level of a trade or business must be determined at the entity level and, once made, is binding on partners.

Qualified PTP items include the partnership's share of qualified items of income, gain, deduction, and loss from an

interest in a PTP and may also include gain or loss recognized on the disposition of the partner's partnership interest that isn't treated as a capital gain or loss. If the reporting partnership is itself a PTP, the PTP should report all qualified items of income, gain, deduction, and loss separately for each trade or business engaged in by the PTP.

QBI and qualified PTP items don't include the following.

- Items that aren't properly includible in income.
- Items that are treated as capital gain or loss under any provision of the Code.
- Dividends or dividend equivalents, including qualified REIT dividends.
- Interest income (unless received in connection with the trade or business).
- Wage income.
- Income that isn't effectively connected with the conduct of business within the United States (go to [IRS.gov/ECI](https://www.irs.gov/efc) for more information).
- Commodities transactions, or foreign currency gains or losses described in section 954(c)(1)(C) or (D).
- Income, loss, or deductions from notional principal contracts under section 954(c)(1)(F).
- Annuities (unless received in connection with the trade or business).
- Guaranteed payments described in section 707(c) received by the entity for services rendered to a partnership.
- Payments described in section 707(a) received by the entity for services rendered to a partnership.

QBI flowchart. Partnerships may use this flowchart to determine if an item of income, gain, deduction, or loss is includible in QBI reportable to partners.

Flowchart To Help Determine if Items Are Qualified Business Income

Questions	Yes	No
1. Is the item effectively connected with the conduct of a trade or business within the United States?	Continue to next question.	Stop. This item isn't QBI.
2. Is the item attributable to a trade or business (this may include section 1231 gain/(loss), section 179 deductions, interest from debt-financed distributions, etc.)? Examples of an item not considered attributable to the trade or business at the entity level include gambling income/(loss) where the entity isn't engaged in the trade or business of gambling, income/(loss) from vacation properties when the entity isn't in that trade or business, activities not engaged in for profit, etc.	Continue to next question.	Stop. This item isn't QBI.
3. Is the item treated as a capital gain or loss under any provision of the Code or is it a dividend or dividend equivalent?	Stop. This item isn't QBI.	Continue to next question.
4. Is the item interest income other than interest income properly allocable to a trade or business? (Note that interest income attributable to an investment of working capital, reserves, or similar accounts isn't properly allocable to a trade or business.)	Stop. This item isn't QBI.	Continue to next question.
5. Is the item an annuity, other than an annuity received in connection with the trade or business?	Stop. This item isn't QBI.	Continue to next question.
6. Is the item gain or loss from a commodities transaction or foreign currency gain or loss described in section 954(c)(1)(C) or (D)?	Stop. This item isn't QBI.	Continue to next question.
7. Is the item gain or loss from a notional principal contract under section 954(c)(1)(F)?	Stop. This item isn't QBI.	Continue to next question.
8. Is the item of income or loss from a qualified PTP?	This item is a qualified PTP item. Report this item as qualified PTP income or loss, subject to partner-specific determinations, and check the "PTP" box.	This item is QBI. Report this item as QBI subject to partner-specific determinations.

Specific instructions for Statement A—QBI Pass-Through Entity Reporting.

QBI or qualified PTP items. The partnership (including PTPs) must first determine if it's engaged in one or more trades or businesses. It must then determine if any of its trades or businesses are SSTBs. It must also determine whether it has qualified PTP items from an interest in a PTP. It must indicate the

status in the appropriate checkboxes for each trade or business (or aggregated trade or business) reported.

Note: SSTBs and PTPs can't be aggregated with any other trade or business. So, if the "Aggregation" box is checked, the "SSTB" and "PTP" boxes for that specific aggregated trade or business shouldn't be checked.

Next, the partnership must report to each partner their distributive share of all items that are QBI or qualified PTP items for each trade or business the partnership owns directly or indirectly. Use the QBI flowchart above to determine if an item is reportable as a QBI item or qualified PTP item subject to partner-specific determinations.

The descriptions on the statement generally match the descriptions reported on Schedule K-1. So the amounts should reflect each trade's or business's portion of the qualified items of income, gain, deduction, or loss reported in the applicable box of the partner's Schedule K-1. For example, the amount reported on the "Ordinary business income (loss)" line of this statement should reflect the attributable portion of qualified items of income, gain, deduction, and loss for each trade or business included in the "Ordinary business income (loss)" reported in box 1 of the partner's Schedule K-1. Each item included under "Other income (loss)" and "Other deductions" must be stated separately, identifying the nature and amount of each item.

W-2 wages and UBIA of qualified property. The partnership must determine the W-2 wages and UBIA of qualified property properly allocable to QBI for each qualified trade or business and report the distributive share to each partner on Statement A, or a substantially similar statement, attached to Schedule K-1. This includes the pro rata share of W-2 wages and UBIA of qualified property reported to the partnership from any qualified trades or businesses of an RPE the partnership owns directly or indirectly. However, partnerships that own a direct or indirect interest in a PTP may not include any amounts for W-2 wages or UBIA of qualified property from the PTP, as the W-2 wages and UBIA of qualified property from a PTP aren't allowed in figuring the W-2 wage and UBIA limitations.

The W-2 wages are amounts paid to employees described in sections 6051(a)(3) and (8). If the partnership conducts more than one trade or business, it must allocate the W-2 wages among its trades or businesses. See Rev. Proc. 2019-11, 2019-09 I.R.B. 742, for more information.

The unadjusted basis of qualified property is figured by adding the unadjusted basis of all qualified assets immediately after acquisition. Qualified property includes all tangible property subject to depreciation under section 167, for which the depreciable period hasn't ended, that is held and used by the trade or business during the tax year and held on the last day of the tax year. The depreciable period ends on the later of 10 years after the property is placed in service or the last day of the full year for the applicable recovery period under section 168.

Qualified REIT dividends. The partnership must report the distributive share of any qualified REIT dividends to each partner on Statement A, or a substantially similar statement, attached to Schedule K-1. Qualified REIT dividends don't have to be separately reported by trades or businesses and can be reported as a single amount to partners. Qualified REIT dividends include any dividend the partnership receives on REIT stock held for more than 45 days (taking into account the principles of sections 246(c)(3) and (4)) during the 91-day period beginning on the date that is 45 days before the date on which such stock becomes ex-dividend with respect to such dividend, for which the payment isn't obligated to someone else, isn't a capital gain dividend under section 857(b)(3), and isn't a qualified dividend under section 1(h)(11), plus any section 199A dividends received from a RIC that are permitted to be treated as qualified REIT dividends under Regulations section 1.199A-3(d).

Fiscal year-end partnerships. For purposes of determining the QBI or qualified PTP items, UBIA of qualified property, and the aggregate amount of qualified REIT dividends, fiscal year-end partnerships include all items from the tax (fiscal) year.

For purposes of determining W-2 wages, fiscal year-end partnerships include amounts paid to employees under sections 6051(a)(3) and (8) for the calendar year ended with or within the partnership's tax year. If the partnership conducts more than one trade or business, it must allocate W-2 wages among its trades or businesses. See Rev. Proc. 2019-11 for more information.

Statement A—QBI Pass-Through Entity Reporting

Partnership's name:		Partnership's EIN:		
Partner's name:		Partner's identifying number:		
Partner's share of:	Trade or business 1	Trade or business 2	Trade or business 3	
	<input type="checkbox"/> PTP	<input type="checkbox"/> PTP	<input type="checkbox"/> PTP	
	<input type="checkbox"/> Aggregated	<input type="checkbox"/> Aggregated	<input type="checkbox"/> Aggregated	
	<input type="checkbox"/> SSTB	<input type="checkbox"/> SSTB	<input type="checkbox"/> SSTB	
QBI or qualified PTP items subject to partner-specific determinations:				
	Ordinary business income (loss)			
	Rental income (loss)			
	Royalty income (loss)			
	Section 1231 gain (loss)			
	Other income (loss)			
	Section 179 deduction			
	Other deductions			
W-2 wages				
UBIA of qualified property				
Qualified REIT dividends				

Specific instructions for Statement B—QBI Pass-Through Entity Aggregation Election(s). If the partnership elects to aggregate more than one trade or business that meets all the

requirements to aggregate, the partnership must report the aggregation to partners on Statement B, or a substantially similar statement, and attach it to each Schedule K-1. The partnership

must indicate trades or businesses that were aggregated by checking the appropriate box on Statement A for each aggregated trade or business. The partnership must also provide a description of the aggregated trade or business and an explanation of the factors met that allow the aggregation.

The aggregation statement must be completed each year to show the partnership's trade or business aggregations. Failure to disclose the aggregations may cause them to be disaggregated. The partnership's aggregations must be reported consistently for all subsequent years, unless there's a change in facts and circumstances that changes or disqualifies the aggregation. The

partnership must provide a written explanation for any changes to prior-year aggregations that describes the change in facts and circumstances.

If the partnership holds a direct or indirect interest in an RPE that aggregates multiple trades or businesses, the partnership must also include a copy of the RPE's aggregations with each partner's Schedule K-1. The partnership can't break apart the aggregation of another RPE, but it may add trades or businesses to the aggregation, assuming the aggregation requirements are satisfied.

Statement B—QBI Pass-Through Entity Aggregation Election(s)

Partnership's name:	Partnership's EIN:
Trade or business aggregation 1*	
Provide a description of the aggregated trades or businesses and an explanation of the factors met that allow the aggregation in accordance with Regulations section 1.199A-4. In addition, if the partnership holds a direct or indirect interest in a relevant pass-through entity (RPE) that aggregates multiple trades or businesses, attach a copy of the RPE's aggregations.	
<hr style="border: 0; border-top: 1px solid black; margin-bottom: 10px;"/> <hr style="border: 0; border-top: 1px solid black; margin-bottom: 10px;"/> <hr style="border: 0; border-top: 1px solid black; margin-bottom: 10px;"/> <hr style="border: 0; border-top: 1px solid black; margin-bottom: 10px;"/>	
Has this trade or business aggregation changed from the prior year? This includes changes in the aggregation due to a trade or business being formed, acquired, or disposed of, or having ceased operations. If yes, explain.	
<hr style="border: 0; border-top: 1px solid black; margin-bottom: 10px;"/> <hr style="border: 0; border-top: 1px solid black; margin-bottom: 10px;"/>	
* If the partnership has more than one aggregated group, attach additional Statements B. Name the additional aggregations 2, 3, 4, etc.	

Specific instructions for Statement C—QBI Pass-Through Entity Reporting—Patrons of Specified Agricultural and Horticultural Cooperatives.

QBI items and W-2 wages allocable to qualified payments. If the partnership is a patron of a specified agricultural or horticultural cooperative, the partnership must provide the share of QBI items and W-2 wages allocable to qualified payments from each trade or business to each of its partners on Statement C, or a substantially similar statement, and attach it to each Schedule K-1 so each partner can figure their patron reduction under section 199A(b)(7).

QBI items and W-2 wages allocable to qualified payments include QBI items included on Statement A that are allocable to the qualified payments reported to the partnership on Form 1099-PATR from the cooperative.

Section 199A(g) deduction. The partnership must report to its partners their share of any section 199A(g) deduction passed through from the cooperative, as reported on Form 1099-PATR. Section 199A(g) deductions don't have to be reported separately by trades or businesses and can be reported as a single amount to partners.

Statement C—QBI Pass-Through Entity Reporting—Patrons of Specified Agricultural and Horticultural Cooperatives

Partnership's name:		Partnership's EIN:		
Partner's name:		Partner's identifying number:		
Partner's share of:	Trade or business 1	Trade or business 2	Trade or business 3	
	<input type="checkbox"/> PTP	<input type="checkbox"/> PTP	<input type="checkbox"/> PTP	
	<input type="checkbox"/> Aggregated	<input type="checkbox"/> Aggregated	<input type="checkbox"/> Aggregated	
	<input type="checkbox"/> SSTB	<input type="checkbox"/> SSTB	<input type="checkbox"/> SSTB	
QBI items allocable to qualified payments subject to partner-specific determinations:				
	Ordinary business income (loss)			
	Rental income (loss)			
	Royalty income (loss)			
	Section 1231 gain (loss)			
	Other income (loss)			
	Section 179 deduction			
	Other deductions			
W-2 wages allocable to qualified payments				
Section 199A(g) deduction				

Code AA. Section 704(c) information. For partnerships other than PTPs, if a partner's taxable income or loss on any line item on Schedule K-1 (Form 1065) includes an allocation of any income or deduction item determined by applying section 704(c), include the sum of such income and deduction items here.

Example 1—single section 704(c) allocation. Partnership P has two partners, A and B. A and B share all items of income, loss, and deduction equally, except for items required to be allocated under section 704(c). A contributes property X with an FMV of \$100 and a tax basis of \$60. X is depreciable over 10 years. B contributes \$100. The traditional method is used to allocate section 704(c) items pertaining to X. In the first year, the partnership has \$10 of section 704(b) book depreciation, which is allocated equally to A and B for book purposes (\$5 each). However, P only has \$6 of tax depreciation. The partnership has no other income or deductions during the tax year. Under the traditional method, P allocates \$1 to A and \$5 to B for tax purposes. Assuming this is the only item where taxable income is affected by section 704(c) allocations during the current year, the partnership would report deductions of \$1 for A and \$5 for B in box 20 of Schedule K-1 using code AA.

Example 2—multiple section 704(c) allocations. The facts are the same as in *Example 1*, except in addition to the facts in that example, A also contributes property Y with an FMV of \$100 and a remaining tax basis of \$0. If Y were newly placed in service, its depreciable life would be 10 years straight line. The partnership adopts the remedial method with respect to property Y. In the first year, P has \$10 of section 704(b) book depreciation, which is allocated equally to A and B for book purposes (\$5 each). However, P has \$0 of tax depreciation with respect to property Y. Under the remedial method, for tax purposes, P allocates \$5 of remedial income to A and \$5 of a remedial depreciation deduction to B with respect to property Y. In this case, the partnership would report in box 20 of Schedule K-1 using code AA, that A has \$4 of taxable income, determined by applying section 704(c) (\$1 of depreciation deductions from property X and \$5 of remedial income from property Y) and that B has \$10 of deductions for tax purposes, determined by applying section 704(c) (consisting of \$5 depreciation from property X and \$5 remedial depreciation from property Y).

Required reporting for the sale or exchange of an interest in a partnership (codes AB, AC, and AD). When a sale or exchange of a partnership interest occurs and the partnership holds section 751 property such as unrealized receivables defined in section 751(c), property subject to unrecaptured section 1250 gain, inventory items defined in section 751(d), or collectibles, the partnership must report to the transferor partner their share of the gain or loss figured for the following categories of assets. If there was an exchange described in section 751(a), this information must also be reported on Form 8308. See the Instructions for Form 8308 for additional information.

Code AB. Section 751 gain (loss). Section 751 "hot assets" (unrealized receivables and inventory items).

Caution: In addition to the information reported in box 20c for codes AC and AD, you may separately need to report in boxes 9b and 9c the amount of collectibles (28%) gain (loss) and unrecaptured section 1250 gain flowing through the partnership.

Code AC. Section 1(h)(5) collectibles gain. Section 1(h)(5) collectible assets.

Code AD. Section 1(h)(6) unrecaptured section 1250 gain. Section 1(h)(6) unrecaptured section 1250 gain assets (depreciable real property) are section 751 property per Regulations section 1.751-1(c)(4)(v).

Code AE. Excess taxable income. If the partnership is required to file Form 8990, it may determine it has excess taxable income. If so, enter the amount from Form 8990, Part II, line 36, for excess taxable income.

Schedule K-1. Enter the partner's amount of excess taxable income. The partner will enter the amount in column (f) of Form 8990, Schedule A, line 43, if the partner is required to file Form 8990.

Code AF. Excess business interest income. If the partnership is required to file Form 8990, it may determine it has excess business interest income. If so, enter the amount from Form 8990, Part II, line 37, for excess business interest income.

Schedule K-1. Enter the partner's amount of excess business interest income. The partner will enter the amount in column (g) of Form 8990, Schedule A, line 43, if the partner is required to file Form 8990.

Code AG. Gross receipts for section 448(c). Regulations section 1.163(j)-2(d)(2)(iii) requires that partners in a partnership include a share of partnership gross receipts in proportion to their share of gross income under section 703 (unless the partnership is treated as one person under the aggregation rules of section 448(c)). Partnerships with current-year gross receipts (defined in Temporary Regulations section 1.448-1T(f)(2)(iv)) greater than \$5 million are required to report to partners their distributive shares of their current-year gross receipts, as well as their distributive shares of gross receipts for the 3 immediately preceding tax years. If a partnership and a partner are treated as a single employer under the section 448(c) aggregation rules, and the partnership has current-year gross receipts greater than \$5 million, then the partnership should also report its current-year total gross receipts, as well as its total gross receipts for the 3 immediately preceding tax years, to that partner. See [IRS.gov/Newsroom/FAQs-Regarding-the-Aggregation-Rules-Under-Section-448c2-That-Apply-to-the-Section-163j-Small-Business-Exemption](https://www.irs.gov/Newsroom/FAQs-Regarding-the-Aggregation-Rules-Under-Section-448c2-That-Apply-to-the-Section-163j-Small-Business-Exemption). Partnerships whose current-year gross receipts are less than or equal to \$5 million may also use this code to report gross receipts.

Code AH. Noncash charitable contributions. If the partnership made a noncash charitable contribution, report the partner's share of the partnership's adjusted basis of the property for basis limitation purposes.

Code AI. Interest and tax on deferred compensation to partners. Interest and additional tax on deferred compensation under a section 409A nonqualified deferred compensation plan that doesn't meet the requirements of section 409A is included in gross income. Include in this amount any earnings on these deferrals. This amount must also be included on Schedule K, line 4. For details, see the regulations under section 409A. These regulations don't provide guidance on the application of section 409A to arrangements between partnerships and partners. For interim guidance on such arrangements, see Q&A-7 in Notice 2005-1, 2005-2 I.R.B. 274, and the information provided in T.D. 9321. Also see Notice 2006-79, 2006-43 I.R.B. 763; Notice 2007-86, 2007-46 I.R.B. 990; and Notice 2008-113, 2008-51 I.R.B. 1305, for additional information on transitional and relief rules.

Code AJ. Excess business loss limitation. Attach a statement to each partner's Schedule K-1 showing the partner's distributive share of the aggregate business activity gross income or gain, and the aggregate business activity deductions, from all the partnership's trades or businesses. The partners use this, along with other information, to figure their excess business loss limitation under section 461(l).

Code AK. Gain from mark-to-market election. If a partnership is a trader in securities, commodities, or both, and has properly elected under section 475(f) to mark to market the securities, the commodities, or both, the partnership should report ordinary gain or loss from the securities or commodities (or both securities and commodities) trading activities separately from any other ordinary gain or loss. Gain from the mark-to-market election is relevant for partners to figure the NIIT. See the instructions regarding net investment income (code Y), earlier.

Code AL. Section 721(c) partnership. If the partnership is a section 721(c) partnership, line 20c must include the amounts relating to any remedial items made under the remedial allocation method (described in Regulations sections 1.704-3(d) and -3(d)(5)(iii)) with respect to section 721(c) property. Enter a separate code AL in box 20 of Schedule K-1 for each amount for items allocated to the partner. For the U.S. transferor, enter a separate code AL, if any, for the total remedial income allocated to the U.S. transferor, total gain recognized due to an acceleration event, and/or total gain recognized due to a section

367 transfer reflected in columns (c), (d), and (e), respectively, of Schedule G (Form 8865), Part II. For all other partners of the section 721(c) partnership, enter a separate code AL for the total amount of remedial items allocated to such partner relating to section 721(c) property. See Regulations sections 1.721(c)-3 and -6.

Code AM. 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. Go to [IRS.gov/Businesses/Partnerships/Section-1061-Reporting-Guidance-FAQs](https://www.irs.gov/Businesses/Partnerships/Section-1061-Reporting-Guidance-FAQs).

Code AN. Farming and fishing business. If the partnership is involved in a farming or fishing business, report the gross income and gains as well as the losses and deductions attributable to such business activities. See section 1301.

Code AO. PTP information. Any information a partner that is a PTP may need to determine if it meets the 90% qualifying income test of section 7704(c)(2). A partner is required to notify the partnership of their status as a PTP.

Code AP. Inversion gain. Any income or gain reported on Schedule K, lines 1 through 11, that qualifies as inversion gain, if the partnership is an expatriated entity or is a partner in an expatriated entity. For details, see section 7874. Attach a statement to Form 1065 that shows the amount of each type of income or gain included in the inversion gain. The partnership must report each partner's distributive share of the inversion gain in box 20 of Schedule K-1 using code AP. Attach a statement to Schedule K-1 that shows the partner's distributive share of the amount of each type of income or gain included in the inversion gain.

Code AQ. Conservation reserve program payments. The partner's distributive share of any conservation reserve program payments made to the partnership.

Code AR. IRA disclosure. For IRA partners with an amount reported in box 20, code V, include code AR with the IRA partner's unique EIN (not the custodian's EIN).

A partnership with an IRA partner that has never obtained an EIN or hasn't previously filed a Form 990-T isn't required to list the IRA partner's EIN in box 20 of Schedule K-1 (Form 1065) using code AR for tax year 2025. This doesn't relieve the IRA partner of the requirement to timely file Form 990-T and pay any tax due. However, for all tax years after 2025, partnerships with IRA partners are required to include the IRA partner's EIN on Schedule K-1 (Form 1065) if the IRA partner is receiving an allocation of UBTI.

Caution: Enter the EIN without any dashes.

Code AS. Qualifying advanced coal project property and qualifying gasification project property. Attach a statement to Schedule K-1 showing the partner's distributive share of the amounts that the partner will use to figure the amounts to report in their Form 3468, Part II. See the Instructions for Form 3468 for details.

Code AT. Qualifying advanced energy project property. Attach a statement to Schedule K-1 showing the partner's distributive share of the amounts that the partner will use to figure the amounts to report in their Form 3468, Part III. See the Instructions for Form 3468 for details.

Code AU. Advanced manufacturing investment property. Attach a statement to Schedule K-1 showing the partner's distributive share of the amounts that the partner will use to figure the amount to report in their Form 3468, Part IV. See the Instructions for Form 3468 for details.

Code AV. Clean electricity investment property. Attach a statement to Schedule K-1 showing the partner's distributive

share of the amounts that the partner will use to figure the amount to report in their Form 3468, Part V. See the Instructions for Form 3468 for details.

Code AW. Reportable transactions. If the partnership participates in a transaction that must be disclosed on Form 8886, both the partnership and its partners may be required to file Form 8886. The partnership must determine if any of its partners are required to disclose the transaction and provide those partners with information they will need to file Form 8886. This determination is based on the category(ies) under which a transaction qualified for disclosures. See Form 8886 and its instructions for details.

Code AX. Corporate alternative minimum tax (CAMT). If the partnership is furnishing information needed for a partner to determine its distributive share of the partnership's adjusted financial statement income, use code AX.

Code AY. Foreign partners, Form 8990, Schedule A. Form 8990, Schedule A, requires certain foreign partners to report their allocable share of EBIE, excess taxable income, and excess business interest income, if any, that is attributable to income effectively connected with a U.S. trade or business. Provide on Schedule K-1 the information needed to complete Form 8990, Schedule A, for a partner that is a foreign corporation or nonresident alien or is a partnership (domestic or foreign) in which you know, or have reason to know, that one or more of the partners is a foreign corporation or nonresident alien.

Code AZ. Reimbursement of preformation expenditures. Enter the total amount of any reimbursement of preformation expenditures made to a partner that meet the exception to the disguised sale rules under Regulations section 1.707-3. This would include transfers of money or other consideration (including the assumption of or the taking subject to a liability) by the partnership to the partner that would otherwise constitute a disguised sale of property under Regulations section 1.707-3, if not for the preformation expenditure exception under Regulations section 1.707-4(d).

These payments typically relate to capital expenditures incurred by the partner for the partnership and reimbursed within 2 years of the contribution. See Regulations section 1.707-4(d).

Codes BA through BD. Reserved for future use.

Code ZZ. Other. Any other information the partners need to prepare their tax returns, including information needed to prepare state and local tax returns.

Sale of qualified farmland property. On an attached statement, use code ZZ to provide partners information they need to complete Form 1062 and Schedule A (Form 1062) if they make the section 1062 election. Title the attachment "Section 1062 Information Schedule K-1, box 20, code ZZ" and include a copy of the covenant. See the Instructions for Form 1062 for additional information.

Line 21. Total Foreign Taxes Paid or Accrued

Enter in U.S. dollars the total creditable foreign taxes (described in section 901 or 903) that were paid or accrued by the partnership (according to its method of accounting for such taxes). Enter the amount paid or accrued on line 21. Translate these amounts into U.S. dollars by using the applicable exchange rate (see Pub. 514, Foreign Tax Credit for Individuals).

The information on line 21 is solely for purposes of computing basis. A partnership must complete Schedules K-2 and K-3 to provide the information necessary for the partner to claim a foreign tax credit.

Line 22. More Than One At-Risk Activity

If the partnership conducted more than one at-risk activity, the partnership is required to provide certain information separately for each at-risk activity to its partners. This information is reported on an attached statement to Schedule K-1. Check the box to indicate there's more than one at-risk activity for which a statement is attached. See [At-risk activity reporting requirements](#), earlier, for details. Also, see Notice 2019-66 for certain at-risk reporting.

Line 23. More Than One Passive Activity

If the partnership conducted more than one activity (determined for purposes of the passive activity loss and credit limitations), the partnership is required to provide information separately for each activity to its partners. This information is reported on an attached statement to Schedule K-1. Check the box to indicate there's more than one passive activity for which a statement is attached. See [Passive Activity Reporting Requirements](#), earlier, for details.

Analysis of Net Income (Loss) per Return

For each type of partner shown on line 2, enter the portion of the amount shown on line 1 that was allocated to that type of partner. Foreign government partners are treated as corporate partners pursuant to section 892(a)(3). Report all amounts for LLC members on the line for limited partners. The sum of the amounts shown on line 2 must equal the amount shown on line 1. In addition, the amount on Analysis of Net Income (Loss) per Return, line 1, must equal the amount on Schedule M-1, line 9 (if the partnership is required to complete Schedule M-1). If the partnership files Schedule M-3, the amount on Analysis of Net Income (Loss) per Return, line 1, must equal the amount in column (d) of Schedule M-3, Part II, line 26.

In classifying partners who are individuals as active or passive, the partnership should apply the rules below. In applying these rules, a partnership should classify each partner to the best of its knowledge and belief. It's assumed that in most cases the level of a particular partner's participation in an activity will be apparent.

- If the partnership's principal activity is a trade or business, classify a general partner as active if the partner materially participated in all partnership trade or business activities; otherwise, classify a general partner as passive.
- If the partnership's principal activity consists of a working interest in an oil or gas well, classify a general partner as active.
- If the partnership's principal activity is a rental real estate activity, classify a general partner as active if the partner actively participated in all of the partnership's rental real estate activities; otherwise, classify a general partner as passive.
- Classify as passive all partners in a partnership whose principal activity is a rental activity other than a rental real estate activity.
- If the partnership's principal activity is a portfolio activity, classify all partners as active.
- Classify as passive all limited partners in a partnership whose principal activity is a trade or business or rental activity.

Schedule L. Balance Sheets per Books

Tip: Schedules L, M-1, and M-2 aren't required to be completed if the partnership answered "Yes" to question 4 in Schedule B.

Note: Lines that aren't discussed are self-explanatory.

The balance sheets should agree with the partnership's books and records. Attach a statement explaining any differences. There are additional requirements for completing Schedule L for partnerships that are required to file Schedule M-3 (see the Instructions for Schedule M-3 (Form 1065) for details).

Partnerships reporting to the Interstate Commerce Commission (ICC) or to any national, state, municipal, or other public officer may send copies of their balance sheets prescribed by the ICC or national, state, or municipal authorities, as of the beginning and end of the tax year, instead of completing Schedule L. However, statements filed under this procedure must contain sufficient information to enable the IRS to reconstruct a balance sheet similar to that contained on Form 1065 without contacting the partnership during processing.

All amounts on the balance sheet should be reported in U.S. dollars. If the partnership's books and records are kept in a foreign currency, the balance sheet should be translated in accordance with U.S. generally accepted accounting principles (GAAP).

Exception. If the partnership or any qualified business unit of the partnership uses the U.S. dollar approximate separate transactions method, Schedule L should reflect the tax balance sheet prepared and translated into U.S. dollars according to Regulations section 1.985-3(d), and not a U.S. GAAP balance sheet.

Partnerships Required To File Schedule M-3

For partnerships required to file Schedule M-3, the amounts reported on Schedule L must be amounts from financial statements used to complete Schedule M-3. If the partnership prepares non-tax-basis financial statements, Schedule M-3 and Schedule L must report non-tax-basis financial statement amounts. If the partnership doesn't prepare non-tax-basis financial statements, Schedule L must be based on the partnership's books and records and may show tax-basis balance sheet amounts if the partnership's books and records reflect only tax-basis amounts.

Line 5. Tax-Exempt Securities

Include on this line:

- State and local government obligations, the interest on which is excludable from gross income under section 103(a); and
- Stock in a mutual fund or other RIC that distributed exempt-interest dividends during the tax year of the partnership.

Line 7a. Loans to Partners (or Persons Related to Partners)

Include on this line loans to partners or persons related to partners. Persons are related if they have a relationship specified in section 267(b) or 707(b). Amounts included here shouldn't be included elsewhere on lines 1 through 13.

Line 14. Total Assets

Generally, total assets at the beginning of the year (column (b) of Schedule L, line 14) must equal total assets at the close of the

prior tax year (column (d) of Schedule L, line 14). If total assets at the beginning of the year don't equal total assets at the close of the prior year, attach a statement explaining the difference.

For purposes of measuring total assets at the end of the year, the partnership's assets may not be netted against or reduced by partnership liabilities. In addition, asset amounts may not be reported as a negative number. If the partnership has an interest in another partnership and uses a tax-basis method for Schedule L, it must show as an asset the adjusted basis of its interest in the other partnership and separately show as a liability its share of the other partnership's liabilities (which are included in the computation of its adjusted basis). See the Partner's Instructions for Schedule K-1 (Form 1065) for details on how to figure the adjusted basis of a partnership interest. If Schedule L is non-tax-basis, investment in a partnership may be shown as appropriate under the non-tax-basis accounting method of the partnership including, if required by the non-tax-basis accounting method of the partnership, the equity method of accounting for investments, but must be shown as a non-negative amount.

Example. Partnership A prepares a tax-basis Schedule L and is a general partner in Partnership B, a general partnership. Partnership A's adjusted basis in Partnership B at the end of the year is \$16 million. Partnership A's share of Partnership B's liabilities is \$20 million, which is included in the \$16 million adjusted basis amount. On its Schedule L, Partnership A must report \$16 million on line 8 as the amount of its investment asset in Partnership B and report on line 20 its \$20 million share of Partnership B's liabilities. These amounts can't be netted on Schedule L.

Line 18. All Nonrecourse Loans

Nonrecourse loans are those liabilities of the partnership for which no partner bears the economic risk of loss. If the partnership's nonrecourse liabilities include its share of the liabilities of another partnership, the partnership's share of those liabilities must be reflected on line 18.

Line 19a. Loans From Partners (or Persons Related to Partners)

Include on this line loans from partners or persons related to partners. Persons are related if they have a relationship specified in section 267(b) or 707(b). Amounts included here shouldn't be included elsewhere on lines 15 through 21.

Line 20. Other Liabilities

A partnership that is a partner in a tiered partnership must include as a liability on line 20 the partner's share of the tiered partnership's liabilities to the extent they are recourse liabilities to the partner.

Schedule M-1. Reconciliation of Income (Loss) per Books With Analysis of Net Income (Loss) per Return

Tip: Schedule M-3 may be required instead of Schedule M-1. See [Item J. Schedule C and Schedule M-3](#), earlier. See the Instructions for Schedule M-3 (Form 1065) for more information.

Line 2

Report on this line income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on the partnership's books this year. Describe each such item of income. Attach a statement if necessary.

Line 3. Guaranteed Payments

Include on this line guaranteed payments shown on Schedule K, lines 4a and 4b (other than amounts paid for insurance that constitutes medical care for a partner, a partner's spouse, a partner's dependents, and a partner's children under age 27 who aren't dependents).

Line 4b. Travel and Entertainment

Include the following on this line.

- Entertainment expenses, including entertainment-related meals and facilities, not deductible under section 274(a).
- Non-entertainment-related meal expenses not deductible under section 274(n).
- The part of business gifts over \$25. See section 274(b).
- Expenses of an individual allocable to conventions on cruise ships over \$2,000. See section 274(h)(2).
- Employee achievement awards of nontangible property or tangible property over \$400 (\$1,600 if part of a qualified plan). See section 274(j).
- The part of the cost of luxury water travel expenses not deductible under section 274(m). See section 274(m)(1)(A).
- Expenses for travel as a form of education. See section 274(m)(2).
- Nondeductible club dues. See section 274(a)(3).
- Qualified transportation fringes under section 274(a)(4).
- Transportation and commuting expenses under section 274(l).
- Other nondeductible travel and entertainment expenses.

Line 7

Report on this line deductions included on Schedule K, lines 1 through 13e, and 21, not charged against the partnership's book income this year. Describe each such item of deduction. Attach a statement if necessary.

Line 9

This line 9 should reconcile to the Analysis of Net Income (Loss) per Return, line 1.

Schedule M-2. Analysis of Partners' Capital Accounts

Show what caused changes during the tax year in the partners' tax-basis capital accounts.

Line 1. Balance at Beginning of Year

The balance at the beginning of the year should equal the total of the amounts reported as the partners' beginning tax-basis capital accounts in item L of all the partners' Schedules K-1. If not, the partnership should attach an explanation of the difference. Generally, the balance at the beginning of the year should equal the adjusted tax basis of the partnership's assets at the beginning of the year reduced by the partnership's liabilities at the beginning of the year. If the partnership's balance sheet (Schedule L) is reported on the tax basis and if the aggregate of the partners' beginning and ending capital accounts differs from the amounts reported on Schedule L, attach a statement reconciling any differences. No such reconciliation is required if Schedule L isn't reported on the tax basis.

Line 2. Capital Contributed During Year

Include on line 2a the amount of money contributed by each partner to the partnership, as reflected on the partnership's books and records. Include on line 2b the adjusted tax basis of

property net of liabilities contributed by each partner to the partnership, as reflected on the partnership's books and records.

Line 3. Net Income (Loss)

Enter on Schedule M-2, line 3, the amount from the Analysis of Net Income (Loss) per Return, line 1. Generally, this is the same as the amount entered on Schedule M-1, line 9 (if the partnership is required to complete Schedule M-1), or, if the partnership files Schedule M-3, the amount in column (d) of Schedule M-3, Part II, line 26. Because section 743(b) basis adjustments and income from guaranteed payments aren't included in the partners' tax-basis capital accounts, certain adjustments may be necessary. If adjustments to income under section 743(b) are taken into account in calculating net income (loss), remove the effects of those adjustments (for example, by adding or subtracting the income, gain, loss, or deduction resulting from those adjustments on line 4 or line 7 in accordance with the instructions for those lines). If net income includes income from guaranteed payments made to partners, remove such income on line 7.

Line 4. Other Increases (Itemize)

Enter on line 4 the sum of all other increases to the partners' tax-basis capital accounts during the year not reflected on lines 2 and 3. Also, if the aggregate net negative income from all section 743(b) adjustments reported on Schedule K, line 13e, was included as a decrease to income in arriving at net income (loss) on line 3, report those amounts as an increase on line 4. For these purposes, "net negative income from all section 743(b) adjustments" means the excess of all section 743(b) adjustments to income allocated to the partner that decrease partner taxable income over all section 743(b) adjustments to income that increase partner taxable income.

Line 6. Distributions

Line 6a. Cash. Enter the amount of money distributed to each partner by the partnership. For purposes of line 6a, money includes marketable securities, as described in section 731(c).

Line 6b. Property. Enter the sum of the adjusted tax bases of property net of liabilities distributed to each partner by the partnership as reflected on the partnership's books and records. Include withdrawals from inventory for the personal use of a partner.

Line 7. Other Decreases (Itemize)

Enter on line 7 the sum of all other decreases to the partners' tax-basis capital accounts during the year not reflected on line 6. Also, if the aggregate net positive income from all section 743(b) adjustments reported on Schedule K, line 11, was included as an increase to income in arriving at net income (loss) on line 3, report that amount as a decrease on line 7. For these purposes, "net positive income from all section 743(b) adjustments" means the excess of all section 743(b) adjustments to income allocated to the partner that increase the partner's taxable income over all section 743(b) adjustments to income that decrease the partner's taxable income. Likewise, if line 3 includes income from guaranteed payments reported on Schedule K, line 4c, include that amount as a decrease on line 7.

Line 9. Balance at End of Year

The balance at the end of the year should equal the total of the amounts reported as the partners' ending capital accounts in item L of all the partners' Schedules K-1.

Paperwork Reduction Act Notice. We ask for the information on these forms to carry out the Internal Revenue laws of the United States. You're required to give us the information. We need it to ensure that you're complying with these laws and to allow us to figure and collect the right amount of tax.

You aren't required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

Estimates of taxpayer burden. The following tables show burden estimates based on current statutory requirements as of December 2025 for taxpayers filing 2025 Forms 1065, 1066, 1120, 1120-C, 1120-F, 1120-H, 1120-ND, 1120-S, 1120-SF, 1120-FSC, 1120-L, 1120-PC, 1120-REIT, 1120-RIC, and 1120-POL, and related attachments. Time spent and out-of-pocket costs are presented separately. Time burden is broken out by taxpayer activity, with reporting representing the largest component. Out-of-pocket costs include any expenses incurred by taxpayers to prepare and submit their tax returns. Examples include tax return preparation and submission fees, postage and photocopying costs, and tax preparation software costs. While these estimates don't include burden associated with post-filing activities, IRS operational data indicate that electronically prepared and filed returns have fewer arithmetic errors, implying lower post-filing burden.

Reported time and cost burdens are national averages and don't necessarily reflect a "typical" case. Most taxpayers experience lower-than-average burden, with taxpayer burden varying considerably by taxpayer type.

The average burden for partnerships filing Forms 1065 and related attachments is about 60 hours and \$5,300; the average burden for corporations filing Forms 1120 and associated forms is about 90 hours and \$8,600; and the average burden for Forms 1120-REIT, 1120-RIC, and 1120-S, and all related attachments is about 60 hours and \$4,800. Within each of these estimates, there's significant variation in taxpayer activity. Tax preparation fees and other out-of-pocket costs vary extensively depending on the tax situation of the taxpayer, the type of software or professional preparer used, and the geographic location. Third-party burden hours aren't included in these estimates.

Table 1—Taxpayer Burden for Partnerships

Forms 1065 and 1066, and all attachments				
Primary form filed or type of taxpayer	Total number of returns (millions)	Average time (hours)	Average cost	Average monetized burden
All partnerships	5.5	60	\$5,300	\$8,700
Small	5.1	50	\$3,300	\$5,200
Large*	0.4	180	\$29,400	\$50,700

* A large business is defined as one having end-of-year assets greater than \$10 million. A large business is defined the same way for partnerships, taxable corporations, and pass-through corporations. A small business is any business that doesn't meet the definition of a large business.

Table 2—Taxpayer Burden for Taxable Corporations

Forms 1120, 1120-C, 1120-F, 1120-H, 1120-ND, 1120-SF, 1120-FSC, 1120-L, 1120-PC, and 1120-POL, and all attachments				
Primary form filed or type of taxpayer	Total number of returns (millions)	Average time (hours)	Average cost	Average monetized burden
All taxable corporations	2.3	90	\$8,600	\$15,700
Small	2.1	40	\$3,900	\$6,000
Large*	0.2	610	\$69,400	\$141,500

* A large business is defined as one having end-of-year assets greater than \$10 million. A large business is defined the same way for partnerships, taxable corporations, and pass-through corporations. A small business is any business that doesn't meet the definition of a large business.

Table 3—Taxpayer Burden for Pass-Through Corporations

Forms 1120-REIT, 1120-RIC, and 1120-S, and all attachments				
Primary form filed or type of taxpayer	Total number of returns (millions)	Average time (hours)	Average cost	Average monetized burden
All pass-through corporations	6.2	60	\$4,800	\$7,700
Small	6.1	50	\$4,200	\$6,500
Large*	0.1	290	\$42,600	\$76,600

* A large business is defined as one having end-of-year assets greater than \$10 million. A large business is defined the same way for partnerships, taxable corporations, and pass-through corporations. A small business is any business that doesn't meet the definition of a large business.

Comments and Suggestions. We welcome your comments about this publication and your suggestions for future editions. You can send us comments through [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or, you can write to:

Internal Revenue Service
Tax Forms and Publications
1111 Constitution Ave. NW, IR-6526
Washington, DC 20224

Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your comments as we revise our tax forms, instructions, and publications. **Don't** send the tax form to this address. Instead, see [Where To File](#), earlier, near the beginning of these instructions.

Codes for Principal Business Activity and Principal Product or Service

This list of Principal Business Activities and their associated codes is designed to classify an enterprise by the type of activity in which it's engaged to facilitate the administration of the Internal Revenue Code. These Principal Business Activity Codes are based on the North American Industry Classification System.

Using the list of activities and codes below, determine from which activity the business derives the largest percentage of its "total receipts." Total receipts is defined as the sum of gross receipts or sales (page 1, line 1a); all other income (page 1, lines 4 through 7); income reported on Schedule K, lines 3a, 5, 6a, and 7; income or net gain reported on Schedule K, lines 8, 9a, 10, and 11; and income or net gain reported on Form 8825, lines 2, 19, and 20a. If the business purchases raw materials and supplies them to a subcontractor to

produce the finished product, but retains title to the product, the business is considered a manufacturer and must use one of the manufacturing codes (31110-339900).

Once the Principal Business Activity is determined, enter the six-digit code from the list below on page 1, item C. Also enter the business activity in item A and a brief description of the principal product or service of the business in item B.

<p>Agriculture, Forestry, Fishing and Hunting</p> <p>Crop Production</p> <p>111100 Oilseed & Grain Farming</p> <p>111210 Vegetable & Melon Farming (including potatoes & yams)</p> <p>111300 Fruit & Tree Nut Farming</p> <p>111400 Greenhouse, Nursery, & Floriculture Production</p> <p>111900 Other Crop Farming (including tobacco, cotton, sugarcane, hay, peanut, sugar beet & all other crop farming)</p> <p>Animal Production</p> <p>112111 Beef Cattle Ranching & Farming</p> <p>112112 Cattle Feedlots</p> <p>112120 Dairy Cattle & Milk Production</p> <p>112210 Hog & Pig Farming</p> <p>112300 Poultry & Egg Production</p> <p>112400 Sheep & Goat Farming</p> <p>112510 Aquaculture (including shellfish & finfish farms & hatcheries)</p> <p>112900 Other Animal Production</p> <p>Forestry and Logging</p> <p>113110 Timber Tract Operations</p> <p>113210 Forest Nurseries & Gathering of Forest Products</p> <p>113310 Logging</p> <p>Fishing, Hunting and Trapping</p> <p>114110 Fishing</p> <p>114210 Hunting & Trapping</p> <p>Support Activities for Agriculture and Forestry</p> <p>115110 Support Activities for Crop Production (including cotton ginning, soil preparation, planting, & cultivating)</p> <p>115210 Support Activities for Animal Production (including farriers)</p> <p>115310 Support Activities For Forestry</p>	<p>238290 Other Building Equipment Contractors</p> <p>238300 Building Finishing Contractors (including drywall, insulation, painting, wallcovering, flooring, tile, & finish carpentry)</p> <p>238900 Other Specialty Trade Contractors (including site preparation)</p> <p>Manufacturing</p> <p>Food Manufacturing</p> <p>311110 Animal Food Mfg</p> <p>311200 Grain & Oilseed Milling</p> <p>311300 Sugar & Confectionery Product Mfg</p> <p>311400 Fruit & Vegetable Preserving & Specialty Food Mfg</p> <p>311500 Dairy Product Mfg</p> <p>311610 Animal Slaughtering & Processing</p> <p>311710 Seafood Product Preparation & Packaging</p> <p>311800 Bakeries, Tortilla & Dry Pasta Mfg</p> <p>311900 Other Food Mfg (including coffee, tea, flavorings & seasonings)</p> <p>Beverage and Tobacco Product Manufacturing</p> <p>312110 Soft Drink & Ice Mfg</p> <p>312120 Breweries</p> <p>312130 Wineries</p> <p>312140 Distilleries</p> <p>312200 Tobacco Manufacturing</p> <p>Textile Mills and Textile Product Mills</p> <p>313000 Textile Mills</p> <p>314000 Textile Product Mills</p> <p>Apparel Manufacturing</p> <p>315100 Apparel Knitting Mills</p> <p>315210 Cut & Sew Apparel Contractors</p> <p>315250 Cut & Sew Apparel Mfg (except Contractors)</p> <p>315990 Apparel Accessories & Other Apparel Mfg</p> <p>Leather and Allied Product Manufacturing</p> <p>316110 Leather & Hide Tanning & Finishing</p> <p>316210 Footwear Mfg (including rubber & plastics)</p> <p>316990 Other Leather & Allied Product Mfg</p> <p>Wood Product Manufacturing</p> <p>321110 Sawmills & Wood Preservation</p> <p>321210 Veneer, Plywood, & Engineered Wood Product Mfg</p> <p>321900 Other Wood Product Mfg</p> <p>Paper Manufacturing</p> <p>322100 Pulp, Paper, & Paperboard Mills</p> <p>322200 Converted Paper Product Mfg</p> <p>Printing and Related Support Activities</p> <p>323100 Printing & Related Support Activities</p> <p>Petroleum and Coal Products Manufacturing</p> <p>324110 Petroleum Refineries (including integrated)</p> <p>324120 Asphalt Paving, Roofing, & Saturated Materials Mfg</p> <p>324190 Other Petroleum & Coal Products Mfg</p> <p>Chemical Manufacturing</p> <p>325100 Basic Chemical Mfg</p> <p>325200 Resin, Synthetic Rubber, & Artificial & Synthetic Fibers & Filaments Mfg</p> <p>325300 Pesticide, Fertilizer, & Other Agricultural Chemical Mfg</p> <p>325410 Pharmaceutical & Medicine Mfg</p> <p>325500 Paint, Coating, & Adhesive Mfg</p> <p>325600 Soap, Cleaning Compound, & Toilet Preparation Mfg</p> <p>325900 Other Chemical Product & Preparation Mfg</p>	<p>Plastics and Rubber Products Manufacturing</p> <p>326100 Plastics Product Mfg</p> <p>326200 Rubber Product Mfg</p> <p>Nonmetallic Mineral Product Manufacturing</p> <p>327100 Clay Product & Refractory Mfg</p> <p>327210 Glass & Glass Product Mfg</p> <p>327300 Cement & Concrete Product Mfg</p> <p>327400 Lime & Gypsum Product Mfg</p> <p>327900 Other Nonmetallic Mineral Product Mfg</p> <p>Primary Metal Manufacturing</p> <p>331110 Iron & Steel Mills & Ferroalloy Mfg</p> <p>331200 Steel Product Mfg from Purchased Steel</p> <p>331310 Alumina & Aluminum Production & Processing</p> <p>331400 Nonferrous Metal (except Aluminum) Production & Processing</p> <p>331500 Foundries</p> <p>Fabricated Metal Product Manufacturing</p> <p>332110 Forging & Stamping</p> <p>332210 Cutlery & Handtool Mfg</p> <p>332300 Architectural & Structural Metals Mfg</p> <p>332400 Boiler, Tank, & Shipping Container Mfg</p> <p>332510 Hardware Mfg</p> <p>332610 Spring & Wire Product Mfg</p> <p>332700 Machine Shops; Turned Product; & Screw, Nut, & Bolt Mfg</p> <p>332810 Coating, Engraving, Heat Treating, & Allied Activities</p> <p>332900 Other Fabricated Metal Product Mfg</p> <p>Machinery Manufacturing</p> <p>333100 Agriculture, Construction, & Mining Machinery Mfg</p> <p>333200 Industrial Machinery Mfg</p> <p>333310 Commercial & Service Industry Machinery Mfg</p> <p>333410 Ventilation, Heating, Air-Conditioning, & Commercial Refrigeration Equipment Mfg</p> <p>333510 Metalworking Machinery Mfg</p> <p>333610 Engine, Turbine & Power Transmission Equipment Mfg</p> <p>333900 Other General Purpose Machinery Mfg</p> <p>Computer and Electronic Product Manufacturing</p> <p>334110 Computer & Peripheral Equipment Mfg</p> <p>334200 Communications Equipment Mfg</p> <p>334310 Audio & Video Equipment Mfg</p> <p>334410 Semiconductor & Other Electronic Component Mfg</p> <p>334500 Navigational, Measuring, Electromedical, & Control Instruments Mfg</p> <p>334610 Manufacturing & Reproducing Magnetic & Optical Media</p> <p>Electrical Equipment, Appliance, and Component Manufacturing</p> <p>335100 Electric Lighting Equipment Mfg</p> <p>335200 Household Appliance Mfg</p> <p>335310 Electrical Equipment Mfg</p> <p>335900 Other Electrical Equipment & Component Mfg</p> <p>Transportation Equipment Manufacturing</p> <p>336100 Motor Vehicle Mfg</p> <p>336210 Motor Vehicle Body & Trailer Mfg</p> <p>336300 Motor Vehicle Parts Mfg</p> <p>336410 Aerospace Product & Parts Mfg</p> <p>336510 Railroad Rolling Stock Mfg</p> <p>336610 Ship & Boat Building</p> <p>336990 Other Transportation Equipment Mfg</p>	<p>Furniture and Related Product Manufacturing</p> <p>337000 Furniture & Related Product Manufacturing</p> <p>Miscellaneous Manufacturing</p> <p>339110 Medical Equipment & Supplies Mfg</p> <p>339900 Other Miscellaneous Manufacturing</p> <p>Wholesale Trade</p> <p>Merchant Wholesalers, Durable Goods</p> <p>423100 Motor Vehicle & Motor Vehicle Parts & Supplies</p> <p>423200 Furniture & Home Furnishings</p> <p>423300 Lumber & Other Construction Materials</p> <p>423400 Professional & Commercial Equipment & Supplies</p> <p>423500 Metal & Mineral (except Petroleum)</p> <p>423600 Household Appliances & Electrical & Electronic Goods</p> <p>423700 Hardware, & Plumbing & Heating Equipment & Supplies</p> <p>423800 Machinery, Equipment, & Supplies</p> <p>423910 Sporting & Recreational Goods & Supplies</p> <p>423920 Toy & Hobby Goods & Supplies</p> <p>423930 Recyclable Materials</p> <p>423940 Jewelry, Watch, Precious Stone, & Precious Metals</p> <p>423990 Other Miscellaneous Durable Goods</p> <p>Merchant Wholesalers, Nondurable Goods</p> <p>424100 Paper & Paper Products</p> <p>424210 Drugs & Druggists' Sundries</p> <p>424300 Apparel, Piece Goods, & Notions</p> <p>424400 Grocery & Related Products</p> <p>424500 Farm Product Raw Materials</p> <p>424600 Chemical & Allied Products</p> <p>424700 Petroleum & Petroleum Products</p> <p>424800 Beer, Wine, & Distilled Alcoholic Beverages</p> <p>424910 Farm Supplies</p> <p>424920 Book, Periodical, & Newspapers</p> <p>424930 Flower, Nursery Stock, & Florists' Supplies</p> <p>424940 Tobacco Products & Electronic Cigarettes</p> <p>424950 Paint, Varnish, & Supplies</p> <p>424990 Other Miscellaneous Nondurable Goods</p> <p>Wholesale Trade Agents & Brokers</p> <p>425120 Wholesale Trade Agents & Brokers</p> <p>Retail Trade</p> <p>Motor Vehicle and Parts Dealers</p> <p>441110 New Car Dealers</p> <p>441120 Used Car Dealers</p> <p>441210 Recreational Vehicle Dealers</p> <p>441222 Boat Dealers</p> <p>441227 Motorcycle, ATV, & All Other Motor Vehicle Dealers</p> <p>441300 Automotive Parts, Accessories, & Tire Retailers</p> <p>Building Material and Garden Equipment and Supplies Dealers</p> <p>444110 Home Centers</p> <p>444120 Paint & Wallpaper Retailers</p> <p>444140 Hardware Retailers</p> <p>444180 Other Building Material Dealers</p> <p>444200 Lawn & Garden Equipment & Supplies Retailers</p> <p>Food and Beverage Retailers</p> <p>445110 Supermarkets & Other Grocery Retailers (except Convenience)</p> <p>445131 Convenience Retailers</p> <p>445132 Vending Machine Operators</p> <p>445230 Fruit & Vegetable Retailers</p>
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Codes for Principal Business Activity and Principal Product or Service (Continued)

445240 Meat Retailers	485320 Limousine Service	523160 Commodity Contracts Intermediation	541370 Surveying & Mapping (except Geophysical) Services
445250 Fish & Seafood Retailers	485410 School & Employee Bus Transportation	523210 Securities & Commodity Exchanges	541380 Testing Laboratories & Services
445291 Baked Goods Retailers	485510 Charter Bus Industry		Specialized Design Services
445292 Confectionery & Nut Retailers	485990 Other Transit & Ground Passenger Transportation	523900 Other Financial Investment Activities (including portfolio management & investment advice)	541400 Specialized Design Services (including interior, industrial, graphic, & fashion design)
445298 All Other Specialty Food Retailers	Pipeline Transportation	Insurance Carriers and Related Activities	Computer Systems Design and Related Services
445320 Beer, Wine, & Liquor Retailers	486000 Pipeline Transportation	524110 Direct Life, Health, & Medical Insurance Carriers	541511 Custom Computer Programming Services
Furniture and Home Furnishings Retailers	Scenic & Sightseeing Transportation	524120 Direct Insurance (except Life, Health, & Medical) Carriers	541512 Computer Systems Design Services
449110 Furniture Retailers	487000 Scenic & Sightseeing Transportation	524210 Insurance Agencies & Brokerages	541513 Computer Facilities Management Services
449121 Floor Covering Retailers	Support Activities for Transportation	524290 Other Insurance Related Activities (including third-party administration of insurance & pension funds)	541519 Other Computer Related Services
449122 Window Treatment Retailers	488100 Support Activities for Air Transportation		Other Professional, Scientific, and Technical Services
449129 All Other Home Furnishings Retailers	488210 Support Activities for Rail Transportation	Funds, Trusts, and Other Financial Vehicles	541600 Management, Scientific, & Technical Consulting Services
Electronics and Appliance Retailers	488300 Support Activities for Water Transportation	525100 Insurance & Employee Benefit Funds	541700 Scientific Research & Development Services
449210 Electronics & Appliance Retailers (including computers)	488410 Motor Vehicle Towing	525910 Open-End Investment Funds (Form 1120-RIC)	541800 Advertising, Public Relations, & Related Services
General Merchandise Retailers	488490 Other Support Activities for Road Transportation	525920 Trusts, Estates, & Agency Accounts	541910 Marketing Research & Public Opinion Polling
455110 Department Stores	488510 Freight Transportation Arrangement	525990 Other Financial Vehicles (including mortgage REITs & closed-end investment funds)	541920 Photographic Services
455210 Warehouse Clubs, Supercenters, & Other General Merch. Retailers	488990 Other Support Activities for Transportation		541930 Translation & Interpretation Services
Health and Personal Care Retailers	Couriers and Messengers	Real Estate and Rental and Leasing	541940 Veterinary Services
456110 Pharmacies & Drug Retailers	492110 Couriers & Express Delivery Services	Real Estate	541990 All Other Professional, Scientific, & Technical Services
456120 Cosmetics, Beauty Supplies, & Perfume Retailers	492210 Local Messengers & Local Delivery	531110 Lessors of Residential Buildings & Dwellings (including equity REITs)	Management of Companies (Holding Companies)
456130 Optical Goods Retailers	Warehousing and Storage	531120 Lessors of Nonresidential Buildings (except Miniwarehouses) (including equity REITs)	551111 Offices of Bank Holding Companies
456190 Other Health & Personal Care Retailers	493100 Warehousing & Storage (except lessors of miniwarehouses & self-storage units)	531130 Lessors of Miniwarehouses & Self-Storage Units (including equity REITs)	551112 Offices of Other Holding Companies
Gasoline Stations & Fuel Dealers	Information	531190 Lessors of Other Real Estate Property (including equity REITs)	Administrative and Support and Waste Management and Remediation Services
457100 Gasoline Stations (including convenience stores with gas)	Motion Picture and Sound Recording Industries	531210 Offices of Real Estate Agents & Brokers	Administrative and Support Services
457210 Fuel Dealers (including Heating oil & Liquefied Petroleum)	512100 Motion Picture & Video Industries (except video rental)	531310 Real Estate Property Managers	561110 Office Administrative Services
Clothing and Accessories Retailers	512200 Sound Recording Industries	531320 Offices of Real Estate Appraisers	561210 Facilities Support Services
458110 Clothing & Clothing Accessories Retailers	Publishing Industries	531390 Other Activities Related to Real Estate	561300 Employment Services
458210 Shoe Retailers	513110 Newspaper Publishers	Rental and Leasing Services	561410 Document Preparation Services
458310 Jewelry Retailers	513120 Periodical Publishers	532100 Automotive Equipment Rental & Leasing	561420 Telephone Call Centers
458320 Luggage & Leather Goods Retailers	513130 Book Publishers	532210 Consumer Electronics & Appliances Rental	561430 Business Service Centers (including private mail centers & copy shops)
Sporting, Hobby, Book, Musical Instruments, & Miscellaneous Retailers	513140 Directory & Mailing List Publishers	532281 Formal Wear & Costume Rental	561440 Collection Agencies
459110 Sporting Goods Retailers	513190 Other Publishers	532282 Video Tape & Disc Rental	561450 Credit Bureaus
459120 Hobby, Toy, & Game Retailers	513210 Software Publishers	532283 Home Health Equipment Rental	561490 Other Business Support Services (including repossession services, court reporting, & stenotype services)
459130 Sewing, Needlework, & Piece Goods Retailers	Broadcasting & Content Providers & Telecommunications	532284 Recreational Goods Rental	561500 Travel Arrangement & Reservation Services
459140 Musical Instrument & Supplies Retailers	516100 Radio & Television Broadcasting Stations	532289 All Other Consumer Goods Rental	561600 Investigation & Security Services
459210 Book Retailers & News Dealers (including newsstands)	516210 Media Streaming, Social Networks, & Other Content Providers	532310 General Rental Centers	561710 Exterminating & Pest Control Services
459310 Florists	517000 Telecommunications (including Wired, Wireless, Satellite, Cable & Other Program Distribution, Resellers, Agents, Other Telecommunications, & Internet Service Providers)	532400 Commercial & Industrial Machinery & Equipment Rental & Leasing	561720 Janitorial Services
459410 Office Supplies & Stationery Retailers	Data Processing, Web Search Portals, & Other Information Services	Lessors of Nonfinancial Intangible Assets (except copyrighted works)	561730 Landscaping Services
459420 Gift, Novelty, & Souvenir Retailers	518210 Computing Infrastructure Providers, Data Processing, Web Hosting, & Related Services	533110 Lessors of Nonfinancial Intangible Assets (except copyrighted works)	561740 Carpet & Upholstery Cleaning Services
459510 Used Merchandise Retailers	519200 Web Search Portals, Libraries, Archives, & Other Info. Services	Professional, Scientific, and Technical Services	561790 Other Services to Buildings & Dwellings
459910 Pet & Pet Supplies Retailers	Finance and Insurance	Legal Services	561900 Other Support Services (including packaging & labeling services, & convention & trade show organizers)
459920 Art Dealers	Depository Credit Intermediation	541110 Offices of Lawyers	Waste Management and Remediation Services
459930 Manufactured (Mobile) Home Dealers	522110 Commercial Banking	541190 Other Legal Services	562000 Waste Management & Remediation Services
459990 All Other Miscellaneous Retailers (including tobacco, candle, & trophy retailers)	522180 Credit Unions	Accounting, Tax Preparation, Bookkeeping, and Payroll Services	Educational Services
Nonstore Retailers	522180 Savings Institutions & Other Depository Credit Intermediation	541211 Offices of Certified Public Accountants	611000 Educational Services (including schools, colleges, & universities)
Nonstore retailers sell all types of merchandise using such methods as Internet, mail-order catalogs, interactive television, or direct sales. These types of Retailers should select the PBA associated with their primary line of products sold. For example, establishments primarily selling prescription and non-prescription drugs, select PBA code 456110 <i>Pharmacies & Drug Retailers</i> .	522210 Consumer Lending	541213 Tax Preparation Services	Health Care and Social Assistance
Transportation and Warehousing	522220 Credit Card Issuing	541214 Payroll Services	Offices of Physicians and Dentists
Air, Rail, and Water Transportation	522220 Sales Financing	541219 Other Accounting Services	621111 Offices of Physicians (except mental health specialists)
481000 Air Transportation	522291 Real Estate Credit (including mortgage bankers & originators)	Architectural, Engineering, and Related Services	621112 Offices of Physicians, Mental Health Specialists
482110 Rail Transportation	522292 Real Estate Credit (including mortgage bankers & originators)	541310 Architectural Services	621210 Offices of Dentists
483000 Water Transportation	522299 Intl. Secondary Market, & Other Nondepos. Credit Intermediation	541320 Landscape Architecture Services	Offices of Other Health Practitioners
Truck Transportation	Activities Related to Credit Intermediation	541330 Engineering Services	621310 Offices of Chiropractors
484110 General Freight Trucking, Local	522300 Activities Related to Credit Intermediation (including loan brokers, check clearing, & money transmitting)	541340 Drafting Services	621320 Offices of Optometrists
484120 General Freight Trucking, Long-distance	Securities, Commodity Contracts, and Other Financial Investments and Related Activities	541350 Building Inspection Services	
484200 Specialized Freight Trucking	523150 Investment Banking & Securities Intermediation	541360 Geophysical Surveying & Mapping Services	
Transit and Ground Passenger Transportation			
485110 Urban Transit Systems			
485210 Interurban & Rural Bus Transportation			
485310 Taxi and Ridesharing Services			

Codes for Principal Business Activity and Principal Product or Service (Continued)

621330	Offices of Mental Health Practitioners (except Physicians)	624310	Vocational Rehabilitation Services	721191	Bed & Breakfast Inns	811430	Footwear & Leather Goods Repair
621340	Offices of Physical, Occupational & Speech Therapists, & Audiologists	624410	Childcare Services	721199	All Other Traveler Accommodation	811490	Other Personal & Household Goods Repair & Maintenance
621391	Offices of Podiatrists	Arts, Entertainment, and Recreation		721210	RV (Recreational Vehicle) Parks & Recreational Camps	Personal and Laundry Services	
621399	Offices of All Other Miscellaneous Health Practitioners	Performing Arts, Spectator Sports, and Related Industries		721310	Rooming & Boarding Houses, Dormitories, & Workers' Camps	812111	Barber Shops
Outpatient Care Centers		711100	Performing Arts Companies	Food Services and Drinking Places		812112	Beauty Salons
621410	Family Planning Centers	711210	Spectator Sports (including sports clubs & racetracks)	722300	Special Food Services (including food service contractors & caterers)	812113	Nail Salons
621420	Outpatient Mental Health & Substance Abuse Centers	711300	Promoters of Performing Arts, Sports, & Similar Events	722410	Drinking Places (Alcoholic Beverages)	812190	Other Personal Care Services (including diet & weight reducing centers)
621491	HMO Medical Centers	711410	Agents & Managers for Artists, Athletes, Entertainers, & Other Public Figures	722511	Full-Service Restaurants	812210	Funeral Homes & Funeral Services
621492	Kidney Dialysis Centers	711510	Independent Artists, Writers, & Performers	722513	Limited Service Restaurants	812220	Cemeteries & Crematories
621493	Freestanding Ambulatory Surgical & Emergency Centers	Museums, Historical Sites, and Similar Institutions		722514	Cafeterias, Grill Buffets, & Buffets	812310	Coin-Operated Laundries & Drycleaners
621498	All Other Outpatient Care Centers	Museums, Historical Sites, and Similar Institutions		722515	Snack & Non-alcoholic Beverage Bars	812320	Drycleaning & Laundry Services (except Coin-Operated)
Medical and Diagnostic Laboratories		712100	Museums, Historical Sites, & Similar Institutions	Other Services		812330	Linen & Uniform Supply
621510	Medical & Diagnostic Laboratories	Amusement, Gambling, and Recreation Industries		Repair and Maintenance		812910	Pet Care (except Veterinary) Services
Home Health Care Services		713100	Amusement Parks & Arcades	811110	Automotive Mechanical & Electrical Repair & Maintenance	812920	Photofinishing
621610	Home Health Care Services	713200	Gambling Industries	811120	Automotive Body, Paint, Interior, & Glass Repair	812930	Parking Lots & Garages
Other Ambulatory Health Care Services		713900	Other Amusement & Recreation Industries (including golf courses, skiing facilities, marinas, fitness centers, & bowling centers)	811190	Other Automotive Repair & Maintenance (including oil change & lubrication shops & car washes)	812990	All Other Personal Services
621900	Other Ambulatory Health Care Services (including ambulance services & blood & organ banks)	Accommodation and Food Services		811210	Electronic & Precision Equipment Repair & Maintenance	Religious, Grantmaking, Civic, Professional, and Similar Organizations	
Hospitals		Accommodation and Food Services		811310	Commercial & Industrial Machinery & Equipment (except Automotive & Electronic) Repair & Maintenance	813000	Religious, Grantmaking, Civic, Professional, & Similar Organizations (including condominium & homeowners associations)
622000	Hospitals	Accommodation		811410	Home & Garden Equipment & Appliance Repair & Maintenance	Other	
Nursing and Residential Care Facilities		721110	Hotels (except Casino Hotels) & Motels	811420	Reupholstery & Furniture Repair	999000	Unclassified Establishments (unable to classify)
623000	Nursing & Residential Care Facilities	721120	Casino Hotels				
Social Assistance							
624100	Individual & Family Services						
624200	Community Food & Housing, & Emergency & Other Relief Services						

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