1991

Department of the Treasury
Internal Revenue Service

Shareholder's Instructions for Schedule K-1 (Form 1120S)

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

(For Shareholder's Use Only)

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

General Instructions

Purpose of Schedule K-1

The corporation uses Schedule K-1 (Form 1120S) to report your pro rata share of the corporation's income (reduced by any tax the corporation paid on the income), credits, deductions, etc. **Please keep it for your records. Do not file it with your tax return (unless you are required to file it with Form 8271**, Investor Reporting of Tax Shelter Registration Number). A copy has been filed with the IRS.

Although the corporation is subject to a capital gains tax (or built-in gains tax) and an excess net passive income tax, you, the shareholder, are liable for income tax on your share of the corporation's income, whether or not distributed, and you must include your share on your tax return if a return is required. **Your distributive share of S corporation income is not self-employment income and it is not subject to self-employment tax.**

You should use these instructions to help you report the items shown on Schedule K-1 on your tax return.

Where "(attach schedule)" appears next to a line on Schedule K-1, it means the information for these lines (if applicable) will be shown in the "Supplemental Information" space below line 20 of Schedule K-1. If additional space was needed, the corporation will have attached a statement to Schedule K-1 to show the information for the line item.

The notation "(see Instructions for Schedule K-1)" in items A and C at the top of Schedule K-1 is directed to the corporation. You, as a shareholder, should disregard these notations.

Schedule K-1 does not show the amount of actual **dividend** distributions the corporation paid to you. The corporation must report to you such amounts totaling $10 or more during the calendar year on **Form 1099-DIV,** Dividends and Distributions. You report actual dividend distributions on Schedule B (Form 1040).

Basis of Your Stock

You are responsible for maintaining records to show the computation of the basis of your stock in the corporation. Schedule K-1 provides you with information to help you make the computation at the end of each corporate tax year. The basis of your stock is adjusted as follows (this list is not all-inclusive).

Basis is increased by:

1. All income (including tax-exempt income) reported on Schedule K-1. **Note:** *Taxable income must be reported on your tax return (if a return is required) for it to increase your basis.*

2. The excess of the deduction for depletion over the basis of the property subject to depletion.

Basis is decreased by:

1. Property distributions made by the corporation (excluding dividend distributions reported on Form 1099-DIV and distributions in excess of basis) reported on Schedule K-1, line 17.

2. All losses and deductions (including nondeductible expenses) reported on Schedule K-1.

Inconsistent Treatment of Items

Generally, you must treat subchapter S items on your return consistent with the way the corporation treated the items on its filed return. This rule does not apply if your S corporation is within the "small S corporation exception" and does not elect to have the tax treatment of subchapter S items determined at the corporate level.

If the treatment on your original or amended return is inconsistent with the corporation's treatment, or if the corporation has not filed a return, you must file **Form 8082,** Notice of Inconsistent Treatment or Amended Return (Administrative Adjustment Request (AAR)), with your original or amended return to identify and explain the inconsistency (or noting that a corporate return has not been filed).

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

Errors

If you believe the corporation has made an error on your Schedule K-1, notify the corporation and ask for a corrected Schedule K-1. Do not change any items on your copy. Be sure that the corporation sends a copy of the corrected Schedule K-1 to the IRS. If your S corporation does not meet the small S corporation exception, and you are unable to reach agreement with the S corporation regarding the inconsistency, you must file Form 8082.

Tax Shelters

If you receive a copy of **Form 8271,** Investor Reporting of Tax Shelter Registration Number, or if your S corporation is involved in a tax shelter, see the instructions for Form 8271 for the information you are required to furnish the IRS. Attach the completed forms to your income tax return. You can find the tax shelter registration number on line C(1) at the top of your Schedule K-1.

International Boycotts

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

If the corporation cooperated with an international boycott, it must give you a copy of the Form 5713 that it filed. You also must file Form 5713 to report the activities of the corporation and any other boycott operations of your own. You may lose certain tax benefits if the corporation participated in, or cooperated with, an international

boycott. Please see Form 5713 and the instructions for more information.

Elections

Generally, the corporation decides how to figure taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use.

However, certain elections are made by you separately on your income tax return and not by the corporation. These elections are made under:

- Section 59(e) (deduction of certain qualified expenditures ratably over the period of time specified in that section—see the instructions for lines 16a and 16b);
- Section 617 (deduction and recapture of certain mining exploration expenditures); and
- Section 901 (foreign tax credit).

Additional Information

For more information on the treatment of S corporation income, credits, deductions, etc., see **Pub. 589,** Tax Information on S Corporations; **Pub. 535,** Business Expenses; **Pub. 550,** Investment Income and Expenses; and **Pub. 925,** Passive Activity and At-Risk Rules.

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

Limitations on Losses, Deductions, and Credits

Aggregate Losses and Deductions Limited to Basis of Stock and Debt

Generally, the deduction for your share of aggregate losses and deductions reported on Schedule K-1 is limited to the basis of your stock and debt owed to you by the corporation. The basis of your stock is figured at year end. See **Basis of Your Stock** on page1. The basis of your loans made to the corporation is the balance the corporation now owes you, less any reduction for losses in a prior year. See the instructions for line 18. Any loss not allowed for the tax year because of this limitation is available for indefinite carryover, limited to the basis of your stock and debt, in each subsequent tax year. See section 1366(d) for details.

At-Risk Limitations

Generally, if you have:

1. A loss or other deduction from any activity carried on as a trade or business or for the production of income by the corporation, and

2. Amounts in the activity for which you are not at-risk, you will have to complete **Form 6198,** At-Risk Limitations, to figure the allowable loss to report on your return.

The at-risk rules generally limit the amount of loss (including loss on the disposition of assets) and other deductions (such as the section 179 expense deduction) that you can claim to the amount you could actually lose in the activity. However, if you acquired your stock before 1987, the at-risk rules do not apply to losses from an activity of holding real property placed in service before 1987 by the corporation. The activity of holding mineral property does not qualify for this exception.

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

- The basis of your stock in the corporation or basis of your loans made to the corporation if the cash or other property used to purchase the stock or make the loans was from a source covered by nonrecourse indebtedness (except for certain qualified nonrecourse financing, as defined in section 465(b)(6)) or protected against loss by a guarantee, stop-loss agreement, or other similar arrangement, or that is covered by indebtedness from a person who has an interest in the activity or from a related person to a person (except you) having such an interest, other than a creditor.
- Any cash or property contributed to a corporate activity, or your interest in the corporate activity, that is covered by nonrecourse indebtedness (except for certain qualified nonrecourse financing, as defined in section 465(b)(6)) or protected against loss by a guarantee, stop-loss agreement, or other similar arrangement, or that is covered by indebtedness from a person who has an interest in such activity or from a related person to a person (except you) having such an interest, other than a creditor.

Any loss from a section 465 activity not allowed for this tax year will be treated as a deduction allocable to the activity in the next tax year.

To help you complete Form 6198, if required, the corporation should tell you your share of the total pre-1976 losses from a section 465(c)(1) activity (i.e., films or video tapes, leasing section 1245 property, farm, or oil and gas property) for which there existed a corresponding amount of nonrecourse liability at the end of the year in which the losses occurred. Also, you should get a separate statement of income, expenses, etc., for each activity from the corporation.

Passive Activity Limitations

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

- Are individuals, estates, or trusts, and
- Have a passive activity loss or credit for the year.

Passive activities **include**:

1. Trade or business activities in which you do not materially participate, and

2. Activities that meet the definition of rental activities under Temporary Regulations section 1.469-1T(e)(3).

Passive activities **do not include**:

1. Trade or business activities in which you materially participate;

2. Qualifying low-income housing activities; and

3. An activity of trading personal property for the account of owners of interests in the activity.

The corporation will identify separately each activity that may be passive to you. If the corporation is conducting more than one activity, it will report information in the line 20 Supplemental Information space, or attach a statement if more space is needed, that: **(a).** identifies each activity (trade or business activity, rental real estate activity, rental activity other than rental real estate, etc.); **(b).** specifies the income (loss), deductions, and credits from each activity; **(c).** provides other details you may need to determine if an activity loss or credit is subject to the passive activity limitations.

If you determine that you have a passive activity loss or credit, get **Form 8582,** Passive Activity Loss Limitations, to figure your allowable passive loss, and **Form 8582-CR,** Passive Activity Credit Limitations, to figure your allowable passive credit. See the instructions for these forms for more information.

Material participation in trade or business activities.—You must determine whether you materially participated in each trade or business activity held through the corporation. All determinations of material participation are made with respect to participation during the corporation's tax year.

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

Individuals.—If you are an individual, you are considered to materially participate in a trade or business activity only if:

1. You participated in the activity for more than 500 hours during the tax year; or

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

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

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

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

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

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

Work counted toward material participation.—Generally, any work that you or your spouse does in connection with an activity held through an S corporation (in which you own stock at the time the work is done) is counted toward material participation. However, work in connection with an activity is not counted toward material participation if:

1. The work is not the sort of work that owners of the activity would usually do and one of the principal purposes of the work that you or your spouse does is to avoid the passive loss or credit limitations, or

2. You do the work in your capacity as an investor and you are not directly involved in the day-to-day operations of the activity. Examples of work done as an investor which would not count toward material participation include:

a. studying and reviewing financial statements or reports on operations of the activity;

b. preparing or compiling summaries or analyses of the finances or operations of the activity; and

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

Effect of determination.—If you determine that you materially participated in a trade or business activity of the corporation, report the income (loss), deductions, and credits from the Schedule K-1 as indicated in either column (c) of Schedule K-1 or the instructions for your tax return.

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

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

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

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

Only individuals and qualifying estates can actively participate in a rental real estate activity. Estates (other than qualifying estates) and trusts cannot actively participate.

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

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

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

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

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

Modified adjusted gross income is your adjusted gross income figured without taking into account any passive activity loss, any taxable social security or equivalent railroad retirement benefits, any deductible contributions to an IRA or certain other qualified retirement plans under section 219, the deduction allowed under section 164(f) for one-half of self-employment taxes, or the exclusion from income of interest from Series EE U.S. Savings Bonds used to pay higher education expenses.

Special rule for low-income housing activities.—Transitional relief from the passive activity limitations is provided in the case of certain losses from qualified low-income housing projects. The corporation will identify losses from qualified low-income housing projects on an attachment to your Schedule K-1. See Pub. 925 for more information.

Specific Instructions

Name, Address, and Identifying Number

Your name, address, and identifying number, the corporation's name,

address, and identifying number, and items A and B should have been completed. If the corporation is involved in a tax shelter, items C(1) and C(2) should also be completed.

If applicable, item D should be completed.

Lines 1 Through 20

The amounts on lines 1 through 20 show your pro rata share of ordinary income, loss, deductions, credits, and other information from all corporate activities. These amounts do not take into account limitations on losses, credits, or other items that may have to be adjusted because of:

1. The adjusted basis of your stock and debt in the corporation,

2. The at-risk limitations,

3. The passive activity limitations, or

4. Any other limitations that must be taken into account at the shareholder level in figuring taxable income (e.g., the section 179 expense limitation). The limitations of 1., 2., and 3. are discussed above, and the limitations for 4. are discussed throughout these instructions and in other referenced forms and instructions.

If you are an individual, and your pro rata share items are not affected by any of the limitations, report the amounts shown in column (b) of Schedule K-1 as indicated in column (c). If any of the limitations apply, adjust the column (b) amounts for the limitations before you enter the amounts on your return. When applicable, the passive activity limitations on losses are applied after the limitations on losses for a shareholder's basis in stock and debt and the shareholder's at-risk amount.

Note: *The line number references in column (c) are to forms in use for tax years beginning in 1991. If you are a calendar year shareholder in a fiscal year 1991–92 corporation, enter these amounts on the corresponding lines of the tax form in use for 1992.*

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

Income

Line 1—Ordinary Income (Loss) From Trade or Business Activities

The amount reported on line 1 is your share of the ordinary income (loss) from trade or business activities of the corporation. Generally, where you report this amount on Form 1040 depends on whether the amount is from an activity that is a passive activity to you. If you are an individual shareholder, find your situation below and report your line 1 income (loss) as instructed after applying the basis and at-risk limitations on losses:

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

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

a. If income is reported on line 1, report the income on Schedule E, Part II, column (h).

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

Line 2—Net Income (Loss) From Rental Real Estate Activities

Generally, the income (loss) reported on line 2 is a passive activity amount for all shareholders. There is an exception, however, for losses from a qualified low-income housing project. The passive activity loss limitations do not apply to losses incurred by qualified investors in qualified low-income housing projects (see Pub. 925). The corporation will have attached a schedule for line 2 to identify any such amounts.

If you are filing a 1991 Form 1040, use the following instructions to determine where to enter a line 2 amount:

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

a. You actively participated in the corporate rental real estate activities. (See **Active participation in a rental real estate activity,** on page 3.)

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

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

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

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

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

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

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

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

4. If you have income on line 2, enter the income on Schedule E, Part II, column (h).

Line 3—Net Income (Loss) From Other Rental Activities

The amount on line 3 is a passive activity amount for all shareholders. Report the income or loss as follows:

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

2. If income is reported on line 3, report the income on Schedule E (Form 1040), Part II, column (h).

Line 4—Portfolio Income (Loss)

Portfolio income or loss is not subject to the passive activity limitations. Portfolio income includes interest, dividend, annuity and royalty income not derived in the ordinary course of a trade or business, and gain or loss on the sale of property that produces these types of income or is held for investment.

Column (c) of Schedule K-1 tells shareholders where to report this income on Form 1040 and related schedules. Line 4f of Schedule K-1 is used to report income other than that reported on lines 4a through 4e. The type and the amount of income reported on line 4f will be listed in the line 20 Supplemental Information space of Schedule K-1. An example of the type of income that is reported in line 4f is income from a Real Estate Mortgage Investment Company (REMIC) in which the corporation is a residual interest holder. Report your share of any REMIC income on Schedule E (Form 1040), Part IV.

Line 5—Net Gain (Loss) Under Section 1231 (Other Than Due to Casualty or Theft)

Section 1231 gain or loss is reported on line 5. The corporation will identify in the line 20 Supplemental Information space the activity to which the section 1231 gain (loss) relates.

If the amount on line 5 relates to a rental activity, the section 1231 gain (loss) is a passive activity amount. Likewise, if the amount relates to a trade or business activity and you do not materially participate in the activity, the section 1231 gain (loss) is a passive activity amount.

- If the amount is **not** a passive activity amount to you, report it on line 2, column (g) or (h), whichever is applicable, of **Form 4797,** Sales of Business Property. You do not have to complete the information called for in columns (b) through (f), Form 4797. Write "From Schedule K-1 (Form 1120S)" across these columns.
- If gain is reported on line 5 and it **is** a passive activity amount to you, report the gain on line 2, column (h) of Form 4797.
- If a loss is reported on line 5 and it **is** a passive activity amount to you, see **Passive Loss Limitations** in the Instructions for Form 4797. You will need to report the loss following the Instructions for Form 8582 to determine how much of the loss is allowed on Form 4797.

Line 6—Other Income (Loss)

Amounts on this line are other items of income, gain, or loss not included on lines 1 through 5. The corporation should give you a description and the amount of your share for each of these items.

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

Report income or gain items that are passive activity amounts to you as instructed below.

The instructions below tell you where to report line 6 items if such items are **not** passive activity amounts.

Line 6 items include the following:

- Income from recoveries of tax benefit items. A tax benefit item is an amount you deducted in a prior tax year that reduced your income tax. Report this amount on Form 1040, line 22, to the extent it reduced your tax.
- Gambling gains and losses.

1. If the corporation was not engaged in the trade or business of gambling:

a. Report gambling winnings on Form 1040, line 22.

b. Deduct gambling losses to the extent of winnings on Schedule A, line 25.

2. If the corporation was engaged in the trade or business of gambling:

a. Report gambling winnings in Part II of Schedule E.

b. Deduct gambling losses to the extent of winnings in Part II of Schedule E.

- Net gain (loss) from involuntary conversions due to casualty or theft. The corporation will give you a schedule that shows the amounts to be reported in Section B of **Form 4684,** Casualties and Thefts.
- Net short-term capital gain or loss and net long-term capital gain or loss from Schedule D (Form 1120S) that is **not** portfolio income (e.g., gain or loss from the disposition of nondepreciable personal property used in a trade or business activity of the corporation). Report a net short-term capital gain or loss on Schedule D (Form 1040), line 4, column (f) or (g), and a net long-term capital gain or loss on Schedule D (Form 1040), line 11, column (f) or (g).
- Any net gain or loss from section 1256 contracts. Report this amount on line 1 of **Form 6781**, Gains and Losses From Section 1256 Contracts and Straddles.

Deductions

Line 7—Charitable Contributions

The corporation will give you a schedule that shows which contributions were subject to the 50%, 30%, and 20% limitations. For further information, see the Form 1040 instructions.

If property other than cash is contributed, and the claimed deduction for one item or group of similar items of property exceeds $5,000, the corporation is required to file **Form 8283,** Noncash Charitable Contributions, and give you a copy to attach to your tax return. Do not deduct the amount shown on Form 8283. It is the corporation's contribution. You should deduct the amount shown on line 7, Schedule K-1.

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

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

Line 8—Section 179 Expense Deduction

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

Line 9—Deductions Related to Portfolio Income

Amounts on line 9 are deductions that are clearly and directly allocable to portfolio income reported on lines 4a through 4f (other than investment interest expense and section 212 expenses from a REMIC). Generally, you should enter line 9 amounts on Schedule A (Form 1040), line 20. See the instructions for Schedule A, lines 19 through 25, for more information.

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

Line 10—Other Deductions

Amounts on this line are other deductions not included on lines 7, 8, 9, and 15e, such as:

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

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

- Any penalty on early withdrawal of savings.
- Soil and water conservation expenditures. See section 175 for limitations on the amount you are allowed to deduct.
- Expenditures for the removal of architectural and transportation barriers to the elderly and disabled that the corporation elected to treat as a current expense. The expenses are limited by section 190.
- Interest expense allocated to debt-financed distributions. The manner in which you report such interest expense depends on your use of the distributed debt proceeds. See Notice 89-35, 1989-1 C.B. 675, for details.

If the corporation has more than one corporate activity (line **1, 2, or 3** of Schedule K-1), it will identify the activity to which the expenses relate.

The corporation should also give you a description and your share of each of the expense items. Associate any passive activity deduction included on line 10 with the line **1, 2,** or **3** activity to which it relates and report the deduction following the Instructions for Form 8582 (or only on Schedule E (Form 1040) if applicable).

Investment Interest

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

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

Line 11a—Interest Expense on Investment Debts

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

Lines 11b(1) and (2)—Investment Income and Investment Expenses

Use the amounts on these lines to determine the amount to enter on Form 4952.

Caution: *The amounts shown on lines 11b(1) and 11b(2) include only investment income and expenses reported on lines 4 and 9 of Schedule K-1. If applicable, the corporation will have listed in the line 20 Supplemental Information space any other items of investment income and expenses reported elsewhere on Schedule K-1. Combine these items with lines 11b(1) and 11b(2) income and expenses to determine your total investment income and total investment expense from the corporation. Combine these totals with investment income and expenses from other sources to determine the amounts to enter on Form 4952.*

Credits

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

Also, if you are entitled to claim more than one general business credit (i.e., investment credit, jobs credit, credit for alcohol used as fuel, research credit, low-income housing credit, enhanced oil recovery credit, and disabled access credit), you must complete ***Form 3800,*** *General Business Credit, in addition to the credit forms referenced below. If you have more than one credit, see the instructions for Form 3800 for more information.*

Line 12a—Credit for Alcohol Used as Fuel

Your share of the corporation's credit for alcohol used as fuel that is related to all trade or business activities is reported on line 12a. Enter this credit on **Form 6478,** Credit for Alcohol Used as Fuel, to determine your allowed credit for the year.

Line 12b—Low-Income Housing Credit

Your share of the corporation's low-income housing credit is shown on lines 12b(1) through (4). Your allowable credit is entered on **Form 8586,** Low-Income Housing Credit, to determine your allowed credit for the year.

If the corporation invested in a partnership to which the provisions of section 42(j)(5) apply, it will report separately on lines 12b(1) and 12b(3) your share of the credit it received from the partnership.

Your share of all other low-income housing credits of the corporation is reported on lines 12b(2) and 12b(4). You must keep a separate record of the amount of low-income housing credit from these lines so that you will be able to correctly compute any recapture of the credit that may result from the disposition of all or part of your stock in the corporation. For more information, see the instructions for **Form 8611,** Recapture of Low-Income Housing Credit.

Caution: *You cannot claim the low-income housing credit on any qualified low-income housing project if you, or any person, were allowed relief from the passive activity limitations on losses from the project (section 502 of the Tax Reform Act of 1986).*

Line 12c—Qualified Rehabilitation Expenditures Related to Rental Real Estate Activities

The corporation should identify your share of rehabilitation expenditures that are related to each rental real estate activity. The allowable investment credit for qualified rehabilitation expenditures is figured on **Form 3468,** Investment Credit.

Line 12d—Credits (Other Than Credits Shown on Lines 12b and 12c) Related to Rental Real Estate Activities

If applicable, your pro rata share of any other credit (other than on line 12b or 12c) related to rental real estate activities will be shown on line 12d. If more than one credit is involved, the credits will be shown and identified as line 12d credits in the line 20 Supplemental Information space. If the corporation has more than one rental real estate activity, each activity will be separately identified with any credits from the activity, and other information needed to figure the passive activity limitations.

Line 12e—Credits Related to Other Rental Activities

If applicable, your share of any credit related to other rental activities will be reported on line 12e. Income or loss for these activities is reported on line 3 of Schedule K-1. If more than one credit is involved, the credits will be listed separately, each credit identified as a line 12e credit, and the activity to which the credit relates will be identified. This information will be shown in the line 20 Supplemental Information space. The credit may be limited by the passive activity limitations.

Line 13—Other Credits

If applicable, your pro rata share of any other credit (other than on lines 12a through 12e) will be shown on line 13. If more than one credit is reported, the credits will be shown and identified in the line 20 Supplemental Information space. Expenditures qualifying for the **(a)** rehabilitation credit not related to rental real estate activities, **(b)** energy credit, or **(c)** reforestation credit will be reported to you on line 20.

Line 13 credits include the following:

- Nonconventional source fuel credit. Enter this credit on a schedule you prepare yourself to determine the allowed credit to take on your tax return. See section 29 for rules on how to figure the credit.
- Unused investment credit from cooperatives. Enter this credit on Form 3468 to figure your allowable investment credit.
- Credit for backup withholding on dividends, interest income, and other types of income. Include the amount the corporation reports to you in the total that you enter on line 54, page 2, Form 1040. Be sure to check the box on line 54 and write "From Schedule K-1".
- Credit for increasing research activities and orphan drug credit. Enter these credits on **Form 6765,** Credit for Increasing Research Activities.
- Jobs credit. Enter this credit on **Form 5884,** Jobs Credit.
- Disabled access credit. Enter this credit on **Form 8826,** Disabled Access Credit.
- Enhanced oil recovery credit. Enter this credit on **Form 8830,** Enhanced Oil Recovery Credit.

Adjustments and Tax Preference Items

Use the information reported on lines 14a through 14f (as well as adjustments and tax preference items from other sources) to prepare your **Form 6251,** Alternative Minimum Tax—Individuals, or **Form 8656,** Alternative Minimum Tax—Fiduciaries.

Lines 14e(1) and 14e(2)—Gross Income From, and Deductions Allocable to, Oil, Gas, and Geothermal Properties

The amounts reported on these lines include only the gross income from, and deductions allocable to, oil, gas, and geothermal properties that are included on line 1 of Schedule K-1. The corporation should have reported separately any income from or deductions allocable to such properties

that are included on lines 2 through 10. This separate information is reported in the line 20 Supplemental Information space. Use the amounts reported on lines 14e(1) and 14e(2) and any amounts reported on a schedule to help you determine the net amount to enter on line 6g of Form 6251.

Line 14f—Other Adjustments and Tax Preference Items

Enter the line 14f adjustments and tax preference items that are shown in the line 20 Supplemental Information space, with other items from other sources, on the applicable lines of Form 6251.

Foreign Taxes

Use the information on lines 15a through 15g, and attached schedules, to figure your foreign tax credit. For more information, see **Form 1116,** Foreign Tax Credit—Individual, Fiduciary, or Nonresident Alien Individual, and the related instructions.

Other

Lines 16a and 16b

The corporation will show on line 16a the total qualified expenditures to which an election under section 59(e) may apply. It will identify the type of expenditures on line 16b. If there is more than one type of expenditure, the amount of each type will be listed on an attachment. Generally, section 59(e) allows each shareholder to elect to deduct certain expenses ratably over the number of years in the applicable period rather than deduct the full amount in the current year. Under the election, you may deduct ratably over a 3-year period circulation expenditures. Research and experimental expenditures and mining exploration and development costs qualify for a writeoff period of 10 years. Intangible drilling and development costs may be deducted over a 60-month period, beginning with the month in which such costs were paid or incurred. If you make this election, these items are not treated as adjustments or tax preference items for purposes of the alternative minimum tax. Make the election on Form 4562.

Because each shareholder decides whether to make the election under section 59(e), the corporation cannot provide you with the amount of the adjustment or tax preference item related to the expenses listed on line 16a. You must decide both how to claim the expenses on your return and how to compute the resulting adjustment or tax preference item.

Line 17

Reduce the basis of your stock in the corporation by the distributions on line 17. If these distributions exceed the basis of your stock, the excess is treated as gain from the sale or exchange of property and is reported on Schedule D (Form 1040).

Line 18

If the line 18 payments are made on indebtedness with a reduced basis, the repayments result in income to you to the extent the repayments are more than the adjusted basis of the loan. See section 1367(b)(2) for information on reduction in basis of a loan and restoration in basis of a loan with a reduced basis. See Revenue Ruling 64-162, 1964-1 (Part 1) C.B. 304 and Revenue Ruling 68-537, 1968-2 C.B. 372, for other information.

Lines 19a and 19b—Recapture of Low-Income Housing Credit

The corporation will report separately on line 19a your share of any recapture of a low-income housing credit attributable to its investment in partnerships to which the provisions of section 42(j)(5) apply. All other recapture of low-income housing credits will be reported on line 19b. You must keep a separate record of recapture attributable to lines 19a and 19b so that you will be able to correctly figure any credit recapture that may result from the disposition of all or part of your corporate stock ownership. Use the lines 19a and 19b amounts to compute the low-income housing credit recapture on Form 8611. See the instructions for Form 8611 and section 42(j) for additional information.

Supplemental Information

Line 20

If applicable, the corporation should have listed in line 20, Supplemental Information, or if additional space was needed, on an attached statement to Schedule K-1, your distributive share of the following:

1. Information for lines 4f, 6, 7, 9, 10, 14f, 15c, 15d, 15f, and 15g of Schedule K-1.

2. Tax-exempt interest income realized by the corporation. Generally, this income increases your basis in stock of the corporation. Tax-exempt interest earned by the corporation is stated separately for the following reasons:

a. If applicable, use this amount to figure the taxable portion of your social security or railroad retirement benefits. See the Instructions for Form 1040 for details.

b. If you are required to file a tax return for 1991, you must report on your return as an item of information the amount of tax-exempt interest income received or accrued during the tax year. Individual shareholders should report this amount on line 8b of Form 1040.

3. Nondeductible expenses paid or incurred by the corporation. These expenses are not deducted on your tax return but decrease the basis of your stock.

4. Taxes paid on undistributed capital gains by a regulated investment company. (Form 1040 filers, enter your share of these taxes on line 59 of Form 1040, check the box for Form 2439, and add the words "Form 1120S". Also reduce the basis of your stock in the S corporation by this tax.)

5. Gross income from the property, share of production for the tax year, etc., needed to figure your depletion deduction for oil and gas wells. The corporation should also allocate to you a proportionate share of the adjusted basis of each corporate oil or gas property. The allocation of the basis of each property is made as specified in section 613A(c)(11). See Pub. 535 for how to figure your depletion deduction. Also reduce your basis in stock by this deduction (section 1367(a)(2)(E)).

6. Your share of the intangible drilling and development costs shown on line 16a that is attributable to qualified exploratory costs. Use this amount to compute the alternative minimum tax adjustment based on energy preferences. See section 56(h) for more details.

7. Recapture of the section 179 expense deduction. The corporation will tell you if the recapture was caused by a disposition of the property.

The recapture amount is limited to the amount you deducted in earlier years. See Form 4797 for additional information.

8. Recapture of certain mining exploration expenditures (section 617).

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

10. Gross farming and fishing income. If you are an individual shareholder, enter this income on Schedule E (Form 1040), Part V, line 41. Do not report this income elsewhere on Form 1040.

For a shareholder that is an estate or trust, report this income to the beneficiaries on Schedule K-1 (Form 1041). Do not report it elsewhere on Form 1041.

11. Any information you need to compute the interest due under section 453A(c) with respect to certain installment sales of property. If you are an individual, report the interest on Form 1040, line 53. Write "453A(c)" and the amount of the interest on the dotted line to the left of line 53. See the instructions for **Form 6252,** Installment Sale Income, for more information. Also see section

453A(c) for details on making the computation.

12. Information you need to figure the interest due under section 453(l)(3). If the corporation elected to report the dispositions of certain timeshares and residential lots on the installment method, your tax liability must be increased by the interest on tax attributable to your pro rata share of the installment payments received by the corporation during its tax year. If applicable, use the information provided by the corporation to figure your interest. Include the interest on Form 1040, line 53. Also write "453(l)(3)" and the amount of the interest on the dotted line to the left of line 53.

13. Capitalization of interest under section 263A(f). To the extent that certain production or construction expenditures of the corporation are made from proceeds associated with debt that you incur as an owner-shareholder, you must capitalize the interest on this debt. If applicable, use the information on expenditures the corporation gives to you to determine the amount of interest you must capitalize. See Section XII of Notice 88-99, 1988-2 C.B. 422 for more information.

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

15. Your share of expenditures qualifying for the **(a)** rehabilitation credit not related to rental real estate activities, **(b)** energy credit, or **(c)** reforestation credit. Enter the expenditures on the appropriate line of Form 3468 to figure your allowable credit.

16. Investment credit properties subject to recapture. Any information you need to figure your recapture tax on **Form 4255**, Recapture of Investment Credit. See the Form 3468 on which you took the original credit for other information you need to complete Form 4255.

You may also need Form 4255 if you disposed of more than one-third of your stock in the corporation.

17. Preproductive period farm expenses. You may elect to deduct these expenses currently or capitalize them under section 263A. See **Pub. 225,** Farmer's Tax Guide, and Temporary Regulations section 1.263A-1T(c) for more information.

18. Any other information you may need to file with your individual tax return that is not shown elsewhere on Schedule K-1.

*U.S. Government Printing Office: 1991 — 285-278