



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

## Partner's Share of Income, Deductions, Credits, etc. (For Partner's Use Only)

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

## Future Developments

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

## What's New

**Domestic partnerships treated as aggregates for purposes of sections 951, 951A, and 956(a).** Final regulations announced in Treasury Decision 9960 treat domestic partnerships as aggregates of their partners for purposes of sections 951, 951A, and 956(a), and any provision that specifically applies by reference to any of those sections, for tax years of foreign corporations beginning on or after January 25, 2022, and for tax years of U.S. persons in which or with which such tax years of foreign corporations end. Domestic partnerships may apply the final regulations to tax years of foreign corporations beginning after December 31, 2017, and to tax years of the domestic partnership in which or with which such tax years of the foreign corporations end, provided certain consistency requirements are met. See *What's New* in the 2022 Partner's Instructions for Schedule K-3 (Form 1065).

**Line 16. International transactions new notice requirement.** If box 16 is not checked, you should receive notification from the partnership that you will not be receiving a Schedule K-3 unless you request one.

**IRA partners.** The partnership has entered the identifying number of the IRA custodian in item E. The partnership has entered the identifying number of the IRA itself in box 20, code AH, if there is unrelated business taxable income reported in box 20, code V. The IRA partner uses this information in filing Form 990-T, Exempt Organization Business Income Tax Return.

## Reminders

**Schedule K-3 (Form 1065).** Schedule K-3 replaced prior boxes 16 and 20 for certain international items on Schedule K-1. The schedule was designed to provide greater clarity for partners on how to compute their U.S. income tax liability with respect to items of international tax relevance, including claiming deductions and credits.

**Box 21. Foreign taxes paid and accrued.** Box 21 replaced information previously provided in box 16 for foreign taxes paid or accrued with respect to basis adjustments and income reconciliation.

**Section 743(b) adjustment.** Code U in box 20 is used to report the total remaining section 743(b) adjustment for applicable partners. This was reported in previous years in box 20, code AH.

**Section 1061 reporting.** Section 1061 recharacterizes certain long-term capital gains of a partner that holds one or more applicable partnership interests as short-term capital gains. An applicable partnership interest is an interest in a partnership that is transferred to or held by a taxpayer, directly or indirectly, in connection with the performance of substantial services by the taxpayer or any other related person, in an applicable trade or business. See *Section 1061 Reporting Instructions* in Pub 541, Partnerships, for owner-taxpayer filing and reporting requirements.

**Changed format of Schedule K-1.** Schedule K-1 no longer has a page 2 with the list of codes. The list of codes and descriptions are provided under [List of Codes and References Used in Schedule K-1 \(Form 1065\)](#) at the end of these instructions.

## General Instructions

### Purpose of Schedule K-1

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

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

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

The amount of loss and deduction you may claim on your tax return may be less than the amount reported on Schedule K-1. It is

the partner's responsibility to consider and apply any applicable limitations. See [Limitations on Losses, Deductions, and Credits](#), later, for more information.

## Inconsistent Treatment of Items

If you are a partner in a partnership that has not elected out of the centralized partnership audit regime enacted by the Bipartisan Budget Act of 2015 (BBA), you must report the items shown on your Schedule K-1 (and any attached statements) the same way that the partnership treated the items on its return.

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

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

## Errors

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

## Decedent's Schedule K-1

If you are the executor of an estate and you have received a decedent's Schedule K-1, then you have the responsibility to notify the partnership of the name and taxpayer identification number (TIN) of the decedent's estate if the partnership interest is part of the decedent's estate. If a decedent died in a prior year and the partnership continues to send the decedent a Schedule K-1 after being notified of the decedent's death, then you should request that the partnership send a corrected Schedule K-1. If you receive an interest in a partnership by reason of a former partner's death, you must provide the partnership with your name and TIN. For treatment of partnership income upon the death of a partner, see Pub. 559, Survivors, Executors, and Administrators.

## Sale or Exchange of Partnership Interest

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

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

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

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



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



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

## Nominee Reporting

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

A nominee who fails to furnish all the information required by Temporary Regulations section 1.6031(c)-1T when due, or who furnishes incorrect information, is subject to a \$290 penalty for each failure. The maximum penalty is \$3,532,500 for all such failures during a calendar year. If the nominee intentionally disregards the requirement to report correct information, each \$290 penalty increases to \$580 or, if greater, 10% of the aggregate amount of items required to be reported, and there is no limit to the amount of the penalty.

## Definitions

### General Partner

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

### Limited Partner

A limited partner is a partner in a partnership formed under a state limited partnership law, whose personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership. Some members of other entities, such as domestic or foreign business trusts or limited liability companies (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 upon whether the partner meets the definition of a limited partner under section 1402(a)(13).

### Nonrecourse Loans

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

## Elections

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

- Section 59(e) (deduction of certain qualified expenditures ratably over the period of time specified in that section). For details, see the instructions for code J in box 13.
- Section 108(b)(5) (election related to reduction of tax attributes due to exclusion from gross income of discharge of indebtedness).

- Section 263A(d) (preproductive expenses). See the instructions for code P in box 13.
- Section 617 (deduction and recapture of certain mining exploration expenditures).
- Section 901 (foreign tax credit). See Schedule K-3.

## Additional Information

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

To get forms and publications, see the instructions for your tax return or visit the IRS website at [IRS.gov](http://IRS.gov).

## Limitations on Losses, Deductions, and Credits

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

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

### Basis Limitations

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

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

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

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

For partnership tax years beginning after 2017, a partner's share of the adjusted basis in partnership charitable contributions (defined in section 170(c)) and taxes, described in section 901, paid or accrued to foreign countries and to possessions of the United States are subject to this basis limitation (defined in section 704(d)).

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

### At-Risk Limitations

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

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

Schedule K-1 any losses that are not subject to the at-risk limitations.

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

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

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

**Note.** Box 22 in Part III of Schedule K-1 (Form 1065) will be checked when a statement is attached.

### Passive Activity Limitations

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

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

Generally, passive activities include the following.

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

Passive activities do not include the following.

1. Trade or business activities in which you materially participated.
2. Rental real estate activities in which you materially participated if you were a **real estate professional** for the tax year. You were a real estate professional only if you met both of the following conditions.

a. More than half of the personal services you performed in trades or businesses were performed in real property trades or businesses in which you materially participated.

b. You performed more than 750 hours of services in real property trades or businesses in which you materially participated.

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

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

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

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

**Worksheet for Adjusting the Basis of a Partner's Interest in the Partnership**

1. Your adjusted basis at the end of the prior year. Do not enter less than zero. Enter -0- if this is your first tax year . . . . .	1. _____
Increases:	
2. Money and your adjusted basis in property contributed to the partnership less the associated liabilities (but not less than zero) . . . . .	2. _____
3. Your increased share of or assumption of partnership liabilities. (Subtract your share of liabilities shown in item K of your 2021 Schedule K-1 from your share of liabilities shown in item K of your 2022 Schedule K-1 and add the amount of any partnership liabilities you assumed during the tax year (but not less than zero).) . . . . .	3. _____
4a. Your share of the partnership's income or gain (including tax-exempt income) reduced by any amount included in interest income with respect to the credit to holders of clean renewable energy bonds . . . . .	4a. _____
4b. Enter the amount of business interest expense included on 4a . . . . .	4b. _____
4c. Add lines 4a and 4b. If the result is less than zero, include this amount on line 10 . . . . .	4c. _____
5. Any gain recognized this year on contributions of property. Do not include gain from transfer of liabilities . . . . .	5. _____
6. Your share of the excess of the deductions for depletion (other than oil and gas depletion) over the basis of the property subject to depletion . . . . .	6. _____
Decreases:	
7. Withdrawals and distributions of money and the adjusted basis of property distributed to you from the partnership. Do not include the amount of property distributions included in the partner's income (taxable income) . . . . .	7. _____
<b>Caution:</b> A distribution may be taxable if the amount exceeds your adjusted basis of your partnership interest immediately before the distribution.	
8. Your decreased share of partnership liabilities and any decrease in your individual liabilities because they were assumed by the partnership. (Subtract your share of liabilities shown in item K of your 2022 Schedule K-1 from your share of liabilities shown in item K of your 2021 Schedule K-1 and add the amount of your individual liabilities that the partnership assumed during the tax year (but not less than zero).) . . . . .	8. _____
9. Your share of the partnership's nondeductible expenses that are not capital expenditures (excluding business interest expense) . . . . .	9. _____
10. Your share of the partnership's losses and deductions (including capital losses). However, include your share of the partnership's section 179 expense deduction for this year even if you cannot deduct all of it because of limitations. Include business interest expense as a separate loss class. See first <i>Note</i> below. . . . .	10. _____
11. The amount of your deduction for depletion of any partnership oil and gas property, not to exceed your allocable share of the adjusted basis of that property . . . . .	11. _____
12. Your adjusted basis in the partnership at the end of this tax year. (Add lines 1 through 6 and subtract lines 7 through 11 from the total. If zero or less, enter -0-.) . . . . .	12. _____

**Caution:** The deduction for your share of the partnership's losses and deductions is limited to your adjusted basis in your partnership interest. If you entered zero on line 12 and the amount figured for line 12 was less than zero, a portion of your share of the partnership losses and deductions may not be deductible. (See [Basis Limitations](#), earlier, for more information.) Also see [Part III, Partner's Share of Current Year Income, Deductions, Credits, and Other Items](#), later.

**Note:** Include on line 10 business interest expense that was removed from the amount on line 4a. Business interest expense is considered a separate loss class under Regulations section 1.163(j)-6(h)(1). However, to the extent basis is proportionately allocated to this loss class, interest expense is absorbed by applying currently deductible business interest expense to basis first. Excess business interest expense is applied to basis second. Excess business interest expense is only applicable to partnerships subject to section 163(j). In addition, if a partnership has negative section 704(d) expense (interest expense that is limited by basis), negative section 704(d) expense becomes excess business interest expense in the year that the basis limitation no longer applies. This is effective for tax years beginning after November 12, 2020.

**Note:** Section 961(a) adjusted basis increases. Your adjusted basis may be increased under section 961(a) for amounts that you are required to include in income with respect to a controlled foreign corporation (CFC) under sections 951(a) (for example, subpart F income) and 951A (GILTI) because you are a U.S. shareholder of the CFC and you own (within the meaning of section 958(a)(2)) stock of the CFC through the partnership. For purposes of section 951(a), if the partnership is a domestic partnership, then you will be treated as owning (within the meaning of section 958(a)) stock of a CFC through the partnership (i) for a tax year of the foreign corporation that begins before January 25, 2022, only if the partnership applies Regulations section 1.958-1(d)(1) to treat it as not owning stock of the foreign corporation within the meaning of section 958(a) for purposes of section 951; and (ii) for any tax year of the foreign corporation that begins on or after January 25, 2022. See the instructions for Schedule K-3 for more information on section 951(a) inclusions and section 951A inclusions.

Section 961(b)(1) adjusted basis decreases. Your adjusted basis may be decreased under section 961(b)(1) by the sum of (1) the dollar basis in previously taxed earnings and profits (PTEP) in your annual PTEP accounts that you exclude from your gross income under section 959(a) by reason of a distribution made to the partnership; and (2) the dollar amount of any foreign income taxes allowed as a credit under section 960(b) with respect to such PTEP.

- 3. Working interests in oil or gas wells if you were a general partner.
  - 4. The rental of a dwelling unit any partner used for personal purposes during the year for more than the greater of 14 days or 10% of the number of days that the residence was rented at fair rental value.
  - 5. Activities of trading personal property for the account of owners of interests in the activities.
- If you are an individual, an estate, or a trust, and you have a passive activity loss or credit, use Form 8582, Passive Activity Loss Limitations, to figure your allowable passive losses and Form 8582-CR, Passive Activity Credit Limitations, to figure your allowable passive credits. For a corporation, use Form 8810, Corporate Passive Activity Loss and Credit Limitations. See the instructions for these forms for details.
- If the partnership had more than one activity, it will attach a statement to your Schedule K-1 that identifies each activity (trade or business activity, rental real estate activity, rental activity other than

rental real estate, and other activity) and specifies the income (loss), deductions, and credits from each activity.

**Note.** Box 23 in Part III of Schedule K-1 (Form 1065) will be checked when a statement is attached.

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

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

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

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

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

**Limited partners.** If you are a limited partner, you must meet item 1, 5, or 6 above to qualify as having materially participated.

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

1. The work isn't the type of work that owners of the activity would usually do and one of the principal purposes of the work that you or your spouse does is to avoid the passive loss or credit limitations.
2. You do the work in your capacity as an investor and you are not directly involved in the day-to-day operations of the activity. Examples of work done as an investor that would not count toward material participation include:
  - a. Studying and reviewing financial statements or reports on operations of the activity,
  - b. Preparing or compiling summaries or analyses of the finances or operations of the activity for your own use, and
  - c. Monitoring the finances or operations of the activity in a non-managerial capacity.

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

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

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

passive. Report passive income (losses), deductions, and credits as follows.

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

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

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

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

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

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

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

**Example.** You have a Schedule E (Form 1040) loss of \$12,000 (current year losses plus prior year unallowed losses) and a Form

4797 gain of \$7,200. Report the \$7,200 gain on the appropriate line of Form 4797. On Schedule E (Form 1040), line 28, report \$7,200 of the losses as a passive loss in column (g). Carry forward the unallowed loss of \$4,800 (\$12,000 – \$7,200).

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

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

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

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

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

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

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

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

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

**Modified adjusted gross income (MAGI) limitation.** The maximum special allowance that single individuals and married

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

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

**Modified adjusted gross income (MAGI).** This is your adjusted gross income (AGI) from Form 1040 or 1040-SR, line 11, figured without taking into account:

1. The taxable amount of social security or equivalent tier 1 railroad retirement benefits,
2. The deductible contributions to traditional individual retirement accounts (IRAs) and section 501(c)(18) pension plans,
3. The exclusion from income of interest from series EE or I U.S. savings bonds used to pay higher education expenses,
4. The exclusion of amounts received under an employer's adoption assistance program,
5. Any passive activity income or loss included on Form 8582,
6. Any rental real estate loss allowed to real estate professionals,
7. Any overall loss from a PTP (see *Publicly Traded Partnerships (PTPs)* in the Instructions for Form 8582),
8. The deduction allowed for one-half of self-employment tax,
9. The deduction allowed for interest paid on student loans, and
10. The deduction allowed for foreign-derived intangible income and global intangible low-taxed income.

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

If you have net income subject to recharacterization under Temporary Regulations section 1.469-2T(f) and Regulations sections 1.469-2(f)(5) and (6), report such amounts according to the Instructions for Form 8582 (or Form 8810).

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

1. Working interests in oil and gas wells if you are a general partner.
2. The rental of a dwelling unit any partner used 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.
3. Trading personal property for the account of owners of interests in the activity.

**Self-charged interest.** The partnership will report any self-charged interest income or expense that resulted from loans between you and the partnership (or between the partnership and another partnership or S corporation if both entities have the same owners with the same proportional ownership interest in each entity). If there was more than one activity, the partnership will provide a statement allocating the interest income or expense with respect to each activity. The self-charged interest rules do not apply to your partnership interest if the partnership made an election under Regulations section 1.469-7(g) to avoid the application of these rules. See the Instructions for Form 8582 for details.

## Excess Business Loss

Your distributive share of losses attributable to all of the partnership's trades or businesses may be limited under section 461(l). See Form 461, Limitation on Business Losses, and its instructions for more information.

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# Specific Instructions

## Part I. Information About the Partnership

### Item D

If the box in item D is checked, you are a partner in a PTP and must follow the rules discussed earlier under [Publicly traded partnerships](#).

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## Part II. Information About the Partner

### Item E

If the partner is an individual, the partnership will enter the partner's SSN or individual taxpayer identification number (ITIN). For all other partners, the partnership will enter the partner's employer identification number (EIN). In the case of a disregarded entity (DE), the partnership will enter the TIN of the beneficial owner of the DE in item E and the beneficial owner's address in item F.

If the partner is an IRA, the partnership will enter the identifying number of the custodian of the IRA.

For your protection, this form may show only the last four digits of the TIN in items E and H2, as noted under *Purpose of Schedule K-1*, earlier. However, the partnership has reported your complete identification number to the IRS.

### Item H2

If the partner is a DE, such as a single-member LLC that did not elect to be treated as a corporation, the partnership will check the DE box and enter the name and TIN of the DE.

### Item J

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

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

The "Check if decrease is due to sale or exchange of partnership interest" box will be checked if you sold or exchanged all or part of your partnership interest to a new or pre-existing partner during this tax year, regardless of whether you recognized gain or loss on the transaction(s). You may have realized a gain or loss on the transfer or disposition of your interest. See codes AB, AC, and AD in box 20 for items that have special gain or loss treatment. For more information, see *Disposition of Partner's Interest and Partnership Distributions* in Pub. 541.

### Item K

Item K should show your share of the partnership's nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other recourse liabilities at the beginning and the end of the partnership's tax year. If you terminated your interest in the

partnership during the tax year, item K should show the share that existed immediately before the total disposition. A partner's "recourse liability" is any partnership liability for which a partner is personally liable.

If this partnership invested in other partnerships, item K will include your share of partnership liabilities from those other partnerships, except to the extent the liabilities from those other partnerships are owed to this partnership.

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

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

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

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

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

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

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

See [Limitations on Losses, Deductions, and Credits](#), earlier, for more information on the at-risk limitations.

### Item L

The partnership must report your beginning capital account and ending capital account for the year using the Tax Basis Method, including the amount of capital you contributed to the partnership during the year, your share of the partnership's current year net income or loss as computed for tax purposes, any withdrawals and distributions made to you by the partnership, and any other increases or decreases to your capital account determined 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. See the Instructions for Form 1065 for more details.

For many reasons, your ending capital account as reported to you by the partnership in item L may not equal the adjusted tax basis in your partnership interest. Generally, this is because a partner's adjusted tax basis in its partnership interest includes the partner's share of partnership liabilities (and capital accounts determined by using the tax basis method do not). In addition, your partnership may not have all the necessary information from you to accurately figure the adjusted tax basis in your partnership interest due to partner-level adjustments. You are responsible for maintaining an annual record of the adjusted tax basis in your partnership interest

as determined under the principles and provisions of subchapter K, including, for example, those under sections 705, 722, 733, and 742. Regulations section 1.705-1(a)(1) provides that a partner is required to determine the adjusted basis of its interest in a partnership when necessary to determine its tax liability or that of any other person. For example, a determination is required in ascertaining the extent to which a partner's share of loss is allowed, when there is a sale or exchange of all or part of a partnership interest, and when a partner's entire partnership interest is liquidated. The adjusted basis of a partner's interest in a partnership is determined without regard to any amount shown in the partnership books as the partner's "capital," "equity," or similar account.

## Item M

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

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

## Item N

If you are allocated a share of section 704(c) gain or loss, the partnership will report your net unrecognized section 704(c) gain or loss both at the beginning and at the end of the partnership's tax year in item N. The partnership can use any reasonable method in reporting net unrecognized section 704(c) built-in gain or loss to you. You will be allocated unrecognized section 704(c) gain or loss if:

- You contributed property with FMV in excess of adjusted tax basis (built-in gain property);
- You contributed property with FMV less than adjusted tax basis (built-in loss property); or
- The partnership elected, under certain circumstances, to revalue property (book-up or book-down) on its books to reflect changes in the FMV of such property. These revaluations are sometimes referred to as reverse section 704(c) allocations.

The partnership is providing this for your information. If the partnership disposes of the property or there are special allocations due to depreciation, depletion, or amortization, the partnership will report these items on other parts of Schedule K-1.

**Note.** Although the partnership is reporting the beginning and ending balances on an aggregate net basis, it is generally required to keep records of this information on a property-by-property basis.

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

The amounts shown in boxes 1 through 21 reflect your share of income, loss, deductions, credits, and other items from partnership business or rental activities without reference to limitations on losses or adjustments that may be required of you because of:

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

For information on these provisions, see [Limitations on Losses, Deductions, and Credits](#), earlier.

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

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

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

If you file your tax return on a calendar year basis, but your partnership files a return for a fiscal year, report the amounts on your tax return for the year in which the partnership's fiscal year ends. For example, if the partnership's tax year ends in February 2023, report the amounts on your 2023 tax return.

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

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

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

**Codes.** In box 11, boxes 13 through 15, and boxes 17 through 20, the partnership will identify each item by entering a code in the column to the left of the dollar amount entry space. These codes are identified under [List of Codes and References Used in Schedule K-1 \(Form 1065\)](#) at the end of these instructions.

**Attached statements.** The partnership will enter an asterisk (\*) after the code, if any, in the column to the left of the dollar amount entry space for each item for which it has attached a statement providing additional information. For those informational items that can't be reported as a single dollar amount, the partnership will enter an asterisk (\*) in the left column and enter "STMT" in the dollar amount entry space to indicate the information is provided on an attached statement.

## Income (Loss)

### Box 1. Ordinary Business Income (Loss)

The amount reported in box 1 is your share of the ordinary income (loss) from trade or business activities of the partnership. Generally, where you report this amount on Form 1040 or 1040-SR depends on whether the amount is from an activity that is a passive activity to you. If you are an individual partner filing a 2022 Form 1040 or 1040-SR, find your situation below and report your box 1 income (loss) as instructed, after applying the basis and at-risk limitations on losses. If the partnership had more than one trade or business activity, it will attach a statement identifying the income or loss from each activity.



1. Report box 1 income (loss) from partnership trade or business activities in which you materially participated on Schedule E (Form 1040), line 28, column (i) or (k).

2. Report box 1 income (loss) from partnership trade or business activities in which you didn't materially participate, as follows.

a. If income is reported in box 1, report the income on Schedule E (Form 1040), line 28, column (h). However, if the box in item D is checked, report the income following the rules for *Publicly traded partnerships*, earlier.

b. If a loss is reported in box 1, follow the Instructions for Form 8582 to figure how much of the loss can be reported on Schedule E (Form 1040), line 28, column (g). However, if the box in item D is checked, report the loss following the rules for *Publicly traded partnerships*, earlier.

## Box 2. Net Rental Real Estate Income (Loss)

Generally, the income (loss) reported in box 2 is a passive activity amount for all partners. However, the income (loss) in box 2 isn't from a passive activity if you were a real estate professional (defined earlier) and you materially participated in the activity. If the partnership had more than one rental real estate activity, it will attach a statement identifying the income or loss from each activity.

If you are filing a 2022 Form 1040 or 1040-SR, use the following instructions to determine where to report a box 2 amount.

1. If you have a loss from a passive activity in box 2 and you meet all the following conditions, report the loss on Schedule E (Form 1040), line 28, column (g).

a. You actively participated in the partnership rental real estate activities. See [Special allowance for a rental real estate activity](#), earlier.

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

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

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

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

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

g. Your MAGI wasn't more than \$100,000 (not more than \$50,000 if married filing separately and you lived apart from your spouse all year).

h. Your interest in the rental real estate activity wasn't held as a limited partner.

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

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

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

## Box 3. Other Net Rental Income (Loss)

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

1. If box 3 is a loss, follow the Instructions for Form 8582 to figure how much of the loss can be reported on Schedule E (Form 1040), line 28, column (g). However, if the box in item D is checked, report the loss following the rules for *Publicly traded partnerships*, earlier.

2. If income is reported in box 3, report the income on Schedule E (Form 1040), line 28, column (h). However, if the box in item D is checked, report the income following the rules for *Publicly traded partnerships*, earlier.

## Box 4a. Guaranteed Payments for Services

Guaranteed payments are payments made by a partnership to a partner that are determined without regard to the partnership's income. Generally, amounts on this line are not passive income, and you should report them on Schedule E (Form 1040), line 28, column (k) (for example, guaranteed payments for personal services).

## Box 4b. Guaranteed Payments for Capital

These are guaranteed payments other than for services, such as for the use of capital or attributable to section 736(a)(2) payments for unrealized receivables or goodwill. Amounts on this line should be reported on Schedule E (Form 1040), line 28, column (k) (for example, guaranteed payments for capital).

## Box 4c. Total Guaranteed Payments

Amounts on this line include total guaranteed payments paid to you by the partnership.

## Portfolio Income

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

## Box 5. Interest Income

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

## Box 6a. Ordinary Dividends

Report ordinary dividends on Form 1040 or 1040-SR, line 3b.

Some of the amounts reported in this box may be attributable to previously taxed earnings and profits (PTEP) in annual PTEP accounts that you have with respect to a foreign corporation and are therefore excludable from your gross income. Do not include the amount attributable to PTEP in your annual PTEP accounts on Form 1040 or 1040-SR, line 3b. Use Schedule K-3, Part V, to determine your share of distributions by foreign corporations to the partnership that are attributable to PTEP in your annual PTEP accounts with respect to the foreign corporations.

## Box 6b. Qualified Dividends

Report any qualified dividends on Form 1040 or 1040-SR, line 3a.

Some of the amounts reported in this box may be attributable to PTEP in annual PTEP accounts that you have with respect to a foreign corporation and are therefore excludable from your gross income. Do not include the amount attributable to PTEP in your annual PTEP accounts on Form 1040 or 1040-SR, line 3a. Use Schedule K-3, Part V, to determine your share of distributions by foreign corporations to the partnership that are attributable to PTEP in your annual PTEP accounts with respect to the foreign corporations.



Qualified dividends are excluded from investment income, but you may elect to include part or all of these amounts in investment income. See the instructions for Form 4952, line 4g, for important information on making this election.



If you have any foreign source qualified dividends, see the Partner's Instructions for Schedule K-3 for additional information.

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);
- Eligible for the deduction for dividends received under section 245;
- Eligible for the deduction for dividends received under section 245A; and
- Hybrid dividends as defined in section 245A(e)(4).

### Box 6c. Dividend Equivalents

Dividend equivalents are not reported on Form 1040 or 1040-SR. This information is provided for persons that are not 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. The ordinary dividends amount in box 6a does not include the amount of dividend equivalents.

### Box 7. Royalties

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

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

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

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

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



If you have any foreign source net long-term capital gain (loss), see the Partner's Instructions for Schedule K-3 for additional information.

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

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



If you have any foreign source collectibles (28%) gain (loss), see the Partner's Instructions for Schedule K-3 for additional information.

### Box 9c. Unrecaptured Section 1250 Gain

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

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

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



If you have any foreign source unrecaptured section 1250 gain, see the Partner's Instructions for Schedule K-3 for additional information.

### Box 10. Net Section 1231 Gain (Loss)

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

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

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

If the amount is either (a) a loss that isn't from a passive activity or (b) a gain, report it on Form 4797, line 2, column (g). Do not complete columns (b) through (f) on line 2 of Form 4797. Instead, enter "From Schedule K-1 (Form 1065)" across these columns.

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



If you have any foreign source net section 1231 gain (loss), see the Partner's Instructions for Schedule K-3 for additional information.

### Box 11. Other Income (Loss)

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

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

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

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

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

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

**Code E. Cancellation of debt.** Generally, this cancellation of debt (COD) amount is included in your gross income (Schedule 1 (Form 1040), line 8c). Under section 108(b)(5), you may elect to apply any portion of the COD amount excluded from gross income to the reduction of the basis of depreciable property. See Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment), for more details.

**Code F. Section 743(b) positive income adjustments.** The partnership will use this code to report the net positive income adjustment resulting from all section 743(b) basis adjustments. The partnership will provide your section 743(b) adjustment net of cost recovery at year end by asset grouping in box 20, code U.

## Code G. Reserved for future use.

**Code H. Section 951(a) income inclusions.** If the partnership is a domestic partnership that does not apply Regulations section 1.958-1(d)(1) through (3) to a tax year of a foreign corporation that begins before January 25, 2022, to treat it as not owning stock of the foreign corporation within the meaning of section 958(a) for purposes of section 951, and is a U.S. shareholder of the foreign corporation, then any section 951(a) income inclusions with respect to the foreign corporation and such tax year are section 951(a) income inclusions of the partnership, a distributive share of which you generally include in gross income. The partnership will use this code to report your share of its section 951(a) income inclusions. Additionally, if the partnership has a distributive share of a lower-tier partnership's section 951(a) income inclusions, the partnership will use this code to report your share of that inclusion.

**Note.** In all other cases, the partnership will report information needed for you to determine section 951(a) income inclusions with respect to CFCs owned by the partnership, directly or indirectly, on Schedule K-3, Part VI.

The partnership will attach a statement to the Schedule K-1 identifying any subpart F inclusion attributable to:

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

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

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

Code I items may include the following.

- Gain or loss attributable to the sale or exchange of qualified preferred stock of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). The partnership will report on an attached statement the amount of gain or loss attributable to the sale or exchange of the qualified preferred stock, the date the stock was acquired by the partnership, and the date the stock was sold or exchanged by the partnership. If the partner is **not** a financial institution, report the gain or loss on Schedule D (Form 1040), line 5 or line 12, in accordance with the Instructions for Schedule D (Form 1040) and the Instructions for Form 8949. If a partner is a financial institution referred to in section 582(c)(2) or a depository institution holding company (as defined in section 3(w)(1) of the Federal Deposit Insurance Act), report the gain or loss in accordance with the Instructions for Form 4797, and Rev. Proc. 2008-64, 2008-47 I.R.B. 1195.
- Partnership gains from the disposition of farm recapture property (see the instructions for Form 4797, line 27) and other items to which section 1252 applies.
- Income from recoveries of tax benefit items. A tax benefit item is an amount you deducted in a prior tax year that reduced your income tax. Report this amount on Schedule 1 (Form 1040), line 8z, to the extent it reduced your tax in the prior tax year.
- Gambling gains and losses.

1. If the partnership wasn't engaged in the trade or business of gambling, (a) report gambling winnings on Schedule 1 (Form 1040), line 8b; and (b) deduct gambling losses to the extent of winnings on Schedule A (Form 1040), line 16.

2. If the partnership was engaged in the trade or business of gambling, (a) report gambling winnings on Schedule E (Form 1040), line 28, column (k); and (b) deduct gambling losses (to the extent of winnings) on Schedule E (Form 1040), line 28, column (i).

- Gain (loss) from the disposition of an interest in oil, gas, geothermal, or other mineral properties. The partnership will attach a

statement that provides a description of the property, your share of the amount realized from the disposition, your share of the partnership's adjusted basis in the property (for other than oil or gas properties), and your share of the total intangible drilling costs, development costs, and mining exploration costs (section 59(e) expenditures) passed through for the property. You must figure your gain or loss from the disposition by increasing your share of the adjusted basis by the intangible drilling costs, development costs, or mine exploration costs for the property that you capitalized (that is, costs that you didn't elect to deduct under section 59(e)). Report a loss on Form 4797, Part I. Report a gain on Form 4797, Part III, in accordance with the instructions for line 28. See Regulations section 1.1254-5 for details.

- Any income, gain, or loss to the partnership under section 751(b) (certain distributions treated as sales or exchanges). Report this amount on Form 4797, line 10.
- Specially allocated ordinary gain (loss). Report this amount on Form 4797, line 10.
- Net short-term capital gain (loss) and net long-term capital gain (loss) from Schedule D (Form 1065) that isn't portfolio income. An example is gain or loss from the disposition of nondepreciable personal property used in a trade or business activity of the partnership. Report total net short-term gain (loss) on Schedule D (Form 1040), line 5. Report the total net long-term gain (loss) on Schedule D (Form 1040), line 12.
- Gain from the sale or exchange of qualified small business (QSB) stock (as defined in the Instructions for Schedule D (Form 1065)) that is eligible for a section 1202 exclusion. The partnership should also give you (a) the name of the corporation that issued the QSB stock, (b) your share of the partnership's adjusted basis and sales price of the QSB stock, and (c) the dates the QSB stock was bought and sold. Corporate partners are not eligible for the section 1202 exclusion. The following additional limitations apply at the partner level.

1. You must have held an interest in the partnership when the partnership acquired the QSB stock and at all times thereafter until the partnership disposed of the QSB stock.

2. Your share of the eligible section 1202 gain cannot exceed the amount that would have been allocated to you based on your interest in the partnership at the time the QSB stock was acquired.

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

- Gain eligible for section 1045 rollover.

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

1. You must have held an interest in the partnership during the entire period in which the partnership held the QSB stock (more than 6 months prior to the sale), and

2. Your share of the gain eligible for the section 1045 rollover cannot exceed the amount that would have been allocated to you based on your interest in the partnership at the time the QSB stock was acquired.

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

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

the partnership, in writing, if you opt out of the partnership's section 1045 election. If you recognize gain, you must notify the partnership, in writing, of the amount of the gain that you are recognizing.

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

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

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

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

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

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

For more information, see Regulations section 1.1045-1.

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## Deductions

### Box 12. Section 179 Deduction

Use this amount, along with the total cost of section 179 property placed in service during the year from other sources, to complete Part I of Form 4562, Depreciation and Amortization. The partnership

will report on an attached statement your allowable share of the cost of any qualified enterprise zone or qualified real property it placed in service during the tax year. Report the amount from Form 4562, line 12, allocable to a passive activity using the Instructions for Form 8582. If the amount isn't a passive activity deduction, report it on Schedule E (Form 1040), line 28, column (j). However, if the box in item D is checked, report this amount following the rules for *Publicly traded partnerships*, earlier.

### Box 13. Other Deductions

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

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

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

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

**Code C. Noncash contributions (50%).** If property other than cash is contributed, and if the claimed deduction for one item or group of similar items of property exceeds \$500, the partnership must give you a copy of Form 8283, Noncash Charitable Contributions, to attach to your tax return. Do not deduct the amount shown on Form 8283. It is the partnership's contribution. Instead, deduct the amount identified by code C, box 13, subject to the 50% AGI limitation, on Schedule A (Form 1040), line 12.

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

**Food inventory contributions.** The partnership will report on an attached statement your share of qualified food inventory contributions. The food inventory contribution isn't included in the amount reported in box 13 using code C. The partnership will also report your share of the partnership's net income from the business activities that made the food inventory contribution(s). Your deduction for food inventory contributions made during 2022 cannot exceed 15% of your aggregate net income for the tax year from the business activities from which the food inventory contribution was made (including your share of net income from partnership or S corporation businesses that made food inventory contributions). Amounts that exceed the 15% limitation may be carried over for up to 5 years. Report this amount, subject to the 50% AGI limitation, on Schedule A (Form 1040), line 12.

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

**Code E. Capital gain property to a 50% organization (30%).** Report this amount, subject to the 30% AGI limitation, on Schedule A (Form 1040), line 12. See Worksheet 2. Applying the Deduction Limits, in Pub. 526.

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

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

**Increased limit for certain cash contributions during 2021.** The partnership will report your distributive share of certain cash contributions under section 2205(a) of the Coronavirus Aid, Relief,

and Economic Security Act. You can elect to deduct 100% of these contributions on Schedule A (Form 1040), line 11.

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

**Code H. Investment interest expense.** Include this amount on Form 4952, line 1. If the partnership has investment income or other investment expense, it will report your share of these items in box 20 using codes A and B. Include investment income and expenses from other sources to figure how much of your total investment interest is deductible. You will also need this information to figure your investment interest expense deduction.

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

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

**Code I. Deductions—royalty income.** Include deductions allocable to royalties on Schedule E (Form 1040), line 19. For this type of expense, enter "From Schedule K-1 (Form 1065)."

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

**Code J. Section 59(e)(2) expenditures.** On an attached statement, the partnership will show the type and the amount of qualified expenditures for which you may make a section 59(e) election. The statement will also identify the property for which the expenditures were paid or incurred. If there is more than one type of expenditure, the amount of each type will also be listed.

If you deduct these expenditures in full in the current year, they are treated as adjustments or tax preference items for purposes of alternative minimum tax. However, you may elect to amortize these expenditures over the number of years in the applicable period rather than deducting the full amount in the current year. If you make this election, these items are not treated as adjustments or tax preference items.

Under the election, you can deduct circulation expenditures ratably over a 3-year period. Research and experimental expenditures and mining exploration and development costs can be amortized over a 10-year period. Intangible drilling and development costs can be amortized over a 60-month period. The amortization period begins with the month in which such costs were paid or incurred.

Make the election on Form 4562. If you make the election, report the current year amortization of section 59(e) expenditures from Part VI of Form 4562 on Schedule E (Form 1040), line 28. If you do not make the election, report the section 59(e)(2) expenditures on Schedule E (Form 1040), line 28, and figure the resulting adjustment or tax preference item (see Form 6251, Alternative Minimum Tax—Individuals). Whether you deduct the expenditures or elect to amortize them, report the amount on a separate line on line 28, column (i), if you materially participated in the partnership activity. If you didn't materially participate, follow the Instructions for Form 8582 to figure how much of the deduction can be reported in column (g).

**Code K. Excess business interest expense.** If the partnership reports excess business interest expense to the partner, the partner is required to file Form 8990. See the Instructions for Form 8990, Limitation on Business Interest Expense Under Section 163(j), for additional information.

For tax years beginning after 2017, the partner's basis in its partnership interest at the end of the tax year is reduced (but not

below zero) by the amount of excess business interest allocated to the partner for the tax year, even if the partner is not allowed a deduction for the allocated excess business interest in the year of the basis reduction. If the partner disposes of a partnership interest in which the basis has been reduced before all of the allocated excess business interest was used, the partner increases its basis immediately before the sale for the amount not yet deducted.

**Code L. Deductions—portfolio income (other).** Generally, you should report these amounts on Schedule A (Form 1040), line 16. See the instructions for Schedule A, line 16, for details. These deductions are not taken into account in figuring your passive activity loss for the year. Do not enter them on Form 8582.

**Code M. Amounts paid for medical insurance.** Any amounts paid during the tax year for insurance that constitutes medical care for you, your spouse, your dependents, and your children under age 27 who are not dependents. On Schedule 1 (Form 1040), line 17, you may be allowed to deduct such amounts, even if you do not itemize deductions. If you do itemize deductions, enter on Schedule A (Form 1040), line 1, any amounts not deducted on Schedule 1 (Form 1040), line 17.

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

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

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

**Code Q. Reserved for future use.**

**Code R. Pensions and IRAs.** Payments made on your behalf to an IRA, a qualified plan, a simplified employee pension (SEP), or a SIMPLE IRA plan. See the Schedule 1 (Form 1040) instructions for line 20 to figure your IRA deduction. Enter payments made to a qualified plan, SEP, or SIMPLE IRA plan on Schedule 1 (Form 1040), line 16. If the payments to a qualified plan were to a defined benefit plan, the partnership should give you a statement showing the amount of the benefit accrued for the current tax year.

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

If you didn't materially participate in the activity, use Form 8582 to figure the amount to report on Schedule E (Form 1040), line 28, column (g). If you materially participated in the reforestation activity, report the deduction on Schedule E (Form 1040), line 28, column (i).

**Codes T through U. Reserved for future use.**

**Code V. Section 743(b) negative income adjustments.** The partnership will use this code to report the net negative income adjustment resulting from all section 743(b) basis adjustments. The partnership will provide your section 743(b) adjustment net of cost recovery at year end by asset grouping in box 20, code U.

**Code W. Other deductions.** Amounts with this code may include the following.

- Itemized deductions that Form 1040 or 1040-SR filers report on Schedule A (Form 1040).
- Penalty on early withdrawal of savings. Report this amount on Schedule 1 (Form 1040), line 18.

- Soil and water conservation expenditures and endangered species recovery expenditures. See section 175 for limitations on the amount you are allowed to deduct.
- Expenditures for the removal of architectural and transportation barriers to the elderly and disabled that the partnership elected to treat as a current expense. The deductions are limited by section 190(c) to \$15,000 per year from all sources.
- Film, television, and live theatrical production expenses. The partnership will provide a statement that describes the film, television, or live theatrical production generating these expenses. Generally, if the aggregate cost of the production exceeds \$15 million, you are not entitled to the deduction. The limitation is \$20 million for productions in certain areas (see section 181 for details). If you didn't materially participate in the activity, use Form 8582 to determine the amount that can be reported on Schedule E (Form 1040), line 28, column (g). If you materially participated in the production activity, report the deduction on Schedule E (Form 1040), line 28, column (i).
- Interest expense allocated to debt-financed distributions. The manner in which you report such interest expense depends on your use of the distributed debt proceeds. If the proceeds were used in a trade or business activity, report the interest on Schedule E (Form 1040), line 28. In column (a), enter the name of the partnership and "interest expense." If you materially participated in the trade or business activity, enter the interest expense in column (i). If you didn't materially participate in the activity, follow the Instructions for Form 8582 to figure the interest expense you can report in column (g). See the definition of *material participation*, earlier. If the proceeds were used in an investment activity, report the interest on Form 4952. If the proceeds are used for personal purposes, the interest is generally not deductible.
- Interest paid or accrued on debt properly allocable to your share of a working interest in any oil or gas property (if your liability isn't limited). If you didn't materially participate in the oil or gas activity, this interest is investment interest reportable as described earlier under [Code H. Investment interest expense](#); otherwise, it is trade or business interest. If you didn't materially participate in the oil or gas activity, this interest is investment interest expense and should be reported on Form 4952. If you materially participated in the activity, report the interest on Schedule E (Form 1040), line 28. On a separate line, enter "interest expense" and the name of the partnership in column (a) and the amount in column (i).
- Contributions to a capital construction fund (CCF). The deduction for a CCF investment isn't taken on Schedule E (Form 1040). Instead, you subtract the deduction from the amount that would normally be entered as taxable income on Form 1040 or 1040-SR, line 15. In the margin to the left of line 15, enter "CCF" and the amount of the deduction.
- Deductions—portfolio income (formerly deductible by individuals under section 67 subject to 2% AGI floor). For taxpayers other than individuals, deduct amounts that are clearly and directly allocable to portfolio income (other than investment interest expense and section 212 expenses from a REMIC).

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

**Code X. Reserved for future use.**

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

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

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

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

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

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

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

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

## Box 15. Credits

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

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

- You are claiming the investment credit (Form 3468) or the biodiesel and renewable diesel fuels credit (Form 8864) in Part III with box A or B checked.
- The taxpayer is an estate or trust and the source credit can be allocated to beneficiaries. For more details, see the instructions for Form 1041, U.S. Income Tax Return for Estates and Trusts, Schedule K-1, box 13.
- The taxpayer is a cooperative and the source credit can or must be allocated to patrons. For more details, see the instructions for Form 1120-C, U.S. Income Tax Return for Cooperative Associations, Schedule J, line 5c.

**Codes A and B. Reserved for future use.**

**Codes C and D. Low-income housing credit.** If section 42(j)(5) applies, the partnership will report your share of the low-income housing credit using code C. If section 42(j)(5) doesn't apply, your share of the credit will be reported using code D. Any allowable low-income housing credit reported using code C or code D is reported on Form 8586, line 4; or Form 3800, Part III, line 4d.

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

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

Combine the expenditures (for Form 3468 reporting) from box 15, code E, and box 20, code D. The expenditures related to rental real estate activities (box 15, code E) are reported on Schedule K-1 separately from other qualified rehabilitation

expenditures (box 20, code D) because they are subject to different passive activity limitation rules. See the Instructions for Form 8582-CR for details.

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

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

**Code H. Undistributed capital gains credit.** Code H represents taxes paid on undistributed capital gains by a RIC or REIT. Report these taxes on Schedule 3 (Form 1040), line 13a.

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

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

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

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

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

- The partnership will provide information necessary to determine if it is an eligible small business under section 38(c)(5)(A). If you and the partnership are eligible small businesses, report the credit on line 4i. For more information, see the Instructions for Form 3800.
- All others, report the credit on line 1c.

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

**Code O. Backup withholding.** This is your share of the credit for backup withholding on dividends, interest income, and other types of income. Include this amount in the total you enter on Form 1040 or 1040-SR, line 25c, and attach a copy of the Schedule K-1 to your tax return. Instead of attaching a copy of the Schedule K-1 to the tax return, you can include a statement with the return that provides the partnership's name, address, EIN, and backup withholding amount.

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

Credits that may be reported with code P include the following.

- New markets credit (Form 8874).
- Qualified railroad track maintenance credit (Form 8900).
- Unused investment credit from the qualifying advanced coal project credit, qualifying gasification project credit, qualifying advanced energy project credit, and advanced manufacturing investment credit allocated from cooperatives (Form 3468, line 9).
- Unused investment credit from the rehabilitation credit or energy credit allocated from cooperatives (Form 3468, line 13).

- Renewable electricity production credit. The partnership will provide a statement showing the allocation of the credit for production during the 4-year period beginning on the date the facility was placed in service and for production after that period.
- Indian employment credit (Form 8845).
- Orphan drug credit (Form 8820).
- Credit for small employer pension plan startup costs and auto enrollment (Form 8881).
- Credit for employer-provided childcare facilities and services (Form 8882).
- Biodiesel, renewable diesel, or sustainable aviation fuels credit. If this credit includes the small agri-biodiesel producer credit, the partnership will provide additional information on an attached statement. If no statement is attached, report this amount on Form 8864, line 10. If a statement is attached, see the instructions for Form 8864, line 10.
- Low sulfur diesel fuel production credit (Form 8896).
- Oil and gas production from marginal wells (Form 8904).
- Distilled spirits credit (Form 8906).
- Energy efficient home credit (Form 8908).
- Alternative motor vehicle credit (Form 8910).
- Alternative fuel vehicle refueling property credit (Form 8911).
- Clean renewable energy bond credit. Report this amount on Form 8912.
- **New** clean renewable energy bond credit. Report this amount on Form 8912.
- Qualified energy conservation bond credit. Report this amount on Form 8912.
- Qualified zone academy bond credit. Report this amount on Form 8912.
- Qualified school construction bond credit. Report this amount on Form 8912.
- Build America bond credit. Report this amount on Form 8912.
- Mine rescue team training credit (Form 8923).
- Credit for employer differential wage payments (Form 8932).
- Carbon oxide sequestration credit (Form 8933, Part V, line 14).
- Carbon oxide sequestration credit recapture (Form 8933, Part V, line 16). Enter as a negative number.
- Qualified plug-in electric drive motor vehicle credit (including qualified two-wheeled plug-in electric vehicles and new clean vehicles) (Form 8936).
- Credit for small employer health insurance premiums (Form 8941).
- Employee retention credit for employers affected by qualified disasters (Form 5884-A).
- Employer credit for paid family and medical leave (Form 8994).
- Qualified commercial clean vehicle credit for vehicles acquired after 2022 (Form 8936-A).

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## Box 16. International Transactions

If the partnership checked the box, see the attached Schedule K-3 with respect to items of international tax relevance.

If the partnership did not check the box, the partnership attached a statement to the Schedule K-1 (or issued a statement prior to furnishing the Schedule K-1) notifying the partner that the partner will not receive Schedule K-3 from the partnership unless the partner requests the schedule.

For additional information, see the Partner's Instructions for Schedule K-3.

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## Box 17. Alternative Minimum Tax (AMT) Items

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

**Code A. Post-1986 depreciation adjustment.** This amount is your share of the partnership's post-1986 depreciation adjustment. If

you are an individual partner, report this amount on Form 6251, line 2l.

**Code B. Adjusted gain or loss.** This amount is your share of the partnership's adjusted gain or loss. If you are an individual partner, report this amount on Form 6251, line 2k.

**Code C. Depletion (other than oil & gas).** This amount is your share of the partnership's depletion adjustment. If you are an individual partner, report this amount on Form 6251, line 2d.

**Codes D and E. Oil, gas, & geothermal properties—gross income and deductions.** The amounts reported on these lines include only the gross income (code D) from, and deductions (code E) allocable to, oil, gas, and geothermal properties included in box 1 of Schedule K-1. The partnership should have attached a statement that shows any income from or deductions allocable to such properties that are included in boxes 2 through 13, 18, and 20 of Schedule K-1. Use the amounts reported and the amounts on the attached statement to help you figure the net amount to enter on Form 6251, line 2t.

**Code F. Other AMT items.** Enter the information on the statement attached by the partnership on the applicable lines of Form 6251, Form 466, or Schedule I (Form 1041).

## Box 18. Tax-Exempt Income and Nondeductible Expenses

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

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

**TIP** *The partnership will attach a statement for the amount included under code B that is exempt by reason of section 892 and describe the nature of the income.*

**Code C. Nondeductible expenses.** The nondeductible expenses paid or incurred by the partnership are not deductible on your tax return. Decrease the adjusted basis of your interest in the partnership by this amount.

## Box 19. Distributions

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

The partnership will separately identify both of the following.

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

Decrease the adjusted basis of your interest in the partnership (but not below zero) by the amount of cash distributed to you and the

partnership's adjusted basis of the distributed securities. Advances or drawings of money or property against your share are treated as current distributions made on the last day of the partnership's tax year.

Your basis in the distributed marketable securities (other than in liquidation of your interest) is the smaller of:

- The partnership's adjusted basis in the securities immediately before the distribution increased by any gain recognized on the distribution of the securities, or
- The adjusted basis of your partnership interest reduced by any cash distributed in the same transaction and increased by any gain recognized on the distribution of the securities.

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

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

When this occurs, the partnership will enter code B in box 19 of the contributing partner's Schedule K-1 and attach a statement that provides the information the partner needs to figure the recognized gain under section 737. The partnership is required to provide the following information.

- The FMV of the distributed property (other than money).
- The amount of money received in the distribution.
- The net precontribution gain of the partner.

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

### Computation of Section 737 Gain

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

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

**Code C. Other property.** Code C shows the partnership's adjusted basis of property other than money immediately before the property was distributed to you. In addition, the partnership should report the adjusted basis and FMV of each property distributed. Decrease the adjusted basis of your interest in the partnership by the amount of your basis in the distributed property. Your basis in the distributed property (other than in liquidation of your interest) is the smaller of:

- The partnership's adjusted basis immediately before the distribution, or
- The adjusted basis of your partnership interest reduced by any cash distributed in the same transaction.

If you received the property in liquidation of your interest, your basis in the distributed property is equal to the adjusted basis of your



partnership interest reduced by any cash distributed in the same transaction.

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

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## Box 20. Other Information

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

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

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

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

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

**Code E. Basis of energy property.** If the partnership provides an attached statement for code E, use the information on the statement to complete the applicable energy credit on Form 3468, line 12. See *Energy Credit* in the Instructions for Form 3468.

**Codes F and G. Recapture of low-income housing credit.** A section 42(j)(5) partnership will report recapture of a low-income housing credit with code F. All other partnerships will report recapture of a low-income housing credit with code G. Keep a separate record of recapture from each of these sources so that you will be able to correctly figure any recapture of low-income housing credit that may result from the disposition of all or part of your partnership interest. For details, see Form 8611.

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

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

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

**Code J. Look-back interest—completed long-term contracts.** The partnership will report any information you need to figure the interest due or to be refunded under the look-back method of section

460(b)(2) on certain long-term contracts. Use Form 8697, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to report any such interest.

**Code K. Look-back interest—income forecast method.** The partnership will report any information you need to figure the interest due or to be refunded under the look-back method of section 167(g)(2) for certain property placed in service after September 13, 1995, and depreciated under the income forecast method. Use Form 8866, Interest Computation Under the Look-Back Method for Property Depreciated Under the Income Forecast Method, to report any such interest.

**Code L. Dispositions of property with section 179 deductions.**

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

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

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

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

**Code N. Business interest expense.** For tax years beginning after November 12, 2020, the partnership will report your share of the partnership's deductible business interest expense for inclusion in the separate loss class for computing any basis limitation (defined in section 704(d), Regulations section 1.163(j)-6(h)). This information is necessary if your losses are limited under section 704(d). Deductible business interest expense is reported elsewhere on Schedule K-1 and the total amount is reported here for information only **and was already included as a deduction on another line of your Schedule K-1**. Included in the code N information is a statement providing the allocation of the business

interest expense already deducted by the partnership by line number on Schedule K-1.



*The partner must remove the business interest expense deductions from these referenced lines when computing any basis limitation.*

Any excess business interest expense not deductible under section 163(j) will be included in box 13, code K, for inclusion in the basis limitation and is not reported here. See [Worksheet for Adjusting the Basis of a Partner's Interest in the Partnership](#) for additional information about computing the loss limitation.

**Code O. Section 453(l)(3) information.** The partnership will report any information you need to figure the interest due under section 453(l)(3) with respect to the disposition of certain timeshares and residential lots on the installment method. If you are an individual, report the interest on Schedule 2 (Form 1040), line 14.

**Code P. Section 453A(c) information.** The partnership will report any information you need to figure the interest due under section 453A(c) with respect to certain installment sales. This information will include the following from each Form 6252 where line 5 is greater than \$150,000.

1. Description of property.
2. Date acquired.
3. Date property sold.
4. Selling price, including mortgages and other debts (not including interest, whether stated or unstated), less mortgages, debts, and other liabilities the buyer assumed or took the property subject to.
5. Gross profit.
6. Gross profit percentage.
7. Contract price less (4) above, plus payments received during the year, not including interest, whether stated or unstated.
8. Payments received in prior years, not including interest whether stated or unstated.
9. Installment sale income.
10. Character of the income—capital or ordinary.
11. Partner's share of the deferred obligation. See computation below.

**Deferred obligation computation.** For each Form 6252 where line 5 is greater than \$150,000, figure the Schedule K-1 deferred obligation as follows.

- Item 4 from the list above, less the sum of items 7 and 8. This equals the Schedule K deferred obligation.
- Multiply the Schedule K deferred obligation by the partner's profit percentage. This equals the partner's share of the deferred obligation.

If you are an individual, report the interest on Schedule 2 (Form 1040), line 15. See the Form 6252 instructions for more information. Also see section 453A(c) for details on how to figure the interest.

**Code Q. Section 1260(b) information.** The partnership will report any information you need to figure the interest due under section 1260(b). If the partnership had gain from certain constructive ownership transactions, your tax liability must be increased by the interest charge on any deferral of gain recognition under section 1260(b). Report the interest on Schedule 2 (Form 1040), line 17z. Enter "1260(b)" and the amount of the interest in the space to the left of line 17z. See section 1260(b) for details, including how to figure the interest.

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

**Code S. Capital construction fund (CCF) nonqualified withdrawals.** The partnership will report your share of nonqualified withdrawals from a CCF. These withdrawals are taxed separately

from your other gross income at the highest marginal ordinary income or capital gains tax rate. Attach a statement to your federal income tax return to show your computation of both the tax and interest for a nonqualified withdrawal. Include the tax and interest on Schedule 2 (Form 1040), line 17z. In the space to the left of line 17z, enter the amount of tax and interest and "CCF." See Pub. 595 for details.

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

**Code U. Section 743(b) basis adjustment.** The partnership will provide your section 743(b) adjustment, net of cost recovery, by asset grouping. See [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) for more information.

**Code V. Unrelated business taxable income.** The partnership will report any information you need to figure unrelated business taxable income under section 512(a)(1) (but excluding any modifications required by paragraphs (8) through (15) of section 512(b)) for a partner that is a tax-exempt organization.



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

**Code W. Precontribution gain (loss).** If the partnership distributed any property with precontribution gain or loss to any partner **other than** the contributing partner, and the date of the distribution was within 7 years of the date the property was contributed to the partnership, the contributing partner must recognize a gain or loss under section 704(c)(1)(B). If the partnership made such a distribution during its tax year, it will enter code W in box 20 of the contributing partner's Schedule K-1 and attach a statement providing the amount of the partner's precontribution gain (loss) and identifying the character of the gain or loss (for example, capital gain (loss) or section 1231 gain (loss)). Report the precontribution gain or loss on Form 8949 and/or Schedule D (Form 1040) or Form 4797 in accordance with the information provided by the partnership.

**Code X. Reserved for future use.**

**Code Y. Net investment income.** The partnership may use this code Y to report information you may need to determine your net investment income tax under section 1411 that is not reported elsewhere on the Schedule K-1 or K-3. Code Y is used to report information not provided elsewhere on Schedule K-3 (or an attachment) regarding income from CFCs and passive foreign investment companies (PFICs) the stock of which is owned by the partnership. For CFCs and PFICs that you treat as qualified electing funds (QEFs), the information that is relevant to you will depend on whether you, the partnership, or a lower-tier entity has made an election under Regulations section 1.1411-10(g) with respect to the CFC or QEF. For example, if the partnership made an election under Regulations section 1.1411-10(g) for a CFC the stock of which is owned by the partnership, and the relevant income and deduction items derived from that CFC are reported elsewhere on the Schedule K-3, then you will not need the information provided in code Y to complete your Form 8960.

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

**Code Z. Section 199A information.** Generally, you may be allowed a deduction of up to 20% of your net qualified business income (QBI) plus 20% of your qualified REIT dividends, also known as section 199A dividends, and qualified PTP income from your partnership. The partnership will provide the information you need to

figure your deduction. Use one of these forms to figure your QBI deduction.

1. Use Form 8995, Qualified Business Income Deduction Simplified Computation, if all of the following apply.
  - a. You have QBI, section 199A dividends, or PTP income (defined below).
  - b. Your 2022 taxable income before the QBI deduction is equal to or less than \$170,050 (\$340,100 if married filing jointly).
  - c. You aren't a patron in a specified agricultural or horticultural cooperative.
2. Use Form 8995-A, Qualified Business Income Deduction, if you don't meet all three of the above requirements.

Use the information provided by your partnership to complete the appropriate form listed above. For definitions and more information, see the Instructions for Form 8995 or the Instructions for Form 8995-A, as appropriate.

**QBI/qualified PTP items subject to partner-specific determinations.** The amounts reported to you reflect your distributive share of items from the partnership's trade(s), business(es), or aggregation(s), and may include items that are not includible in your calculation of the QBI deduction. When determining QBI or qualified PTP income, you must include only those items that are qualified items of income, gain, deduction, and loss included or allowed in determining taxable income for the tax year. To determine your QBI or your qualified PTP income amounts and for information on where to report them, see the Instructions for Form 8995 or the Instructions for Form 8995-A, as appropriate.

**W-2 wages.** The amounts reported reflect your distributive share of the partnership's W-2 wages allocable to the QBI of each qualified trade, business, or aggregation. See the Instructions for Form 8995 or the Instructions for Form 8995-A, as appropriate.

**Unadjusted basis immediately after acquisition (UBIA) of qualified property.** The amounts reported reflect your distributive share of the partnership's UBIA of qualified property of each qualified trade, business, or aggregation. See the Instructions for Form 8995 or the Instructions for Form 8995-A, as applicable.

**Section 199A dividends.** The amount reported reflects your distributive share of the partnership's net section 199A dividends. See the Instructions for Form 8995 or the Instructions for Form 8995-A, as applicable.

**Patrons of specified agricultural and horticultural cooperatives.** If the partnership was a patron of an agricultural or horticultural cooperative (specified cooperative), you must use Form 8995-A to figure your QBI deduction. You must also complete Schedule D (Form 8995-A), Special Rules for Patrons of Agricultural or Horticultural Cooperatives, to determine your patron reduction.

**QBI items allocable to qualified payments from specified cooperatives subject to partner-specific determinations.** The amounts reported to you reflect your distributive share of items from the partnership's trade(s), business(es), or aggregation(s), and include items that may not be includible in your calculation of the QBI deduction and patron reduction. When determining QBI items allocable to qualified payments, you must include only qualified items that are included or allowed in determining taxable income for the tax year. To determine your QBI items allocable to qualified payments, see the Instructions for Form 8995-A.

**W-2 wages allocable to qualified payments from specified cooperatives.** The amounts reported reflect your distributive share of the partnership's W-2 wages allocable to the qualified payments of each qualified trade, business, or aggregation. See the Instructions for Form 8995-A.

**Section 199A(g) deduction from specified cooperatives.** The amount reported reflects your distributive share of the partnership's net section 199A(g) deduction. See the Instructions for Form 8995-A.

**Code AA. Section 704(c) information.** The partnership will show the portion of income or deduction items allocated to you under section 704(c). These items are included elsewhere in other income or deduction items on Schedule K-1.

**Code AB. Section 751 gain (loss).** This code is used to report the partner's share of gain or loss on the sale of the partnership interest subject to taxation at ordinary income tax rates.

**Code AC. Section 1(h)(5) gain (loss).** This code is used to report the partner's share of gain or loss on the sale of the partnership interest subject to taxation at the rate for collectible assets as defined in section 1(h)(5).

**Code AD. Deemed section 1250 unrecaptured gain.** This code is used to report the partner's share of gain or loss on the sale of the partnership interest subject to taxation at the rate for unrecaptured section 1250 gain assets as defined in section 1(h)(6).

**Code AE. Excess taxable income.** If the partnership was required to file Form 8990, it may determine it has excess taxable income. Report the amount of excess taxable income on Form 8990, Schedule A, line 43, column (f), if you are required to file Form 8990. See the Instructions for Form 8990 for additional information.

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

**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 Regulations section 1.448-1T(f)(2)(iv)) greater than \$5 million are required to report to their partners their distributive share of current year gross receipts, as well as their distributive share 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 total current year 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).

If a partner needs gross receipts information from a partnership in order to figure the gross receipts test under section 448(c), and the partnership did not report gross receipts on the Schedule K-1, the partner should request this information from the partnership.

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

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



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

- Any information you need to complete a disclosure statement for reportable transactions in which the partnership participates. If the partnership participates in a transaction that must be disclosed on Form 8886, Reportable Transaction Disclosure Statement, both you and the partnership may be required to file Form 8886 for the transaction. The determination of whether you are required to disclose a transaction of the partnership is based on the category(s) under which the transaction qualifies for disclosure and is determined by you and the partnership. You may have to pay a penalty if you are required to file Form 8886 and do not do so. See the Instructions for Form 8886 for details.
- Interest and additional tax on compensation deferred under a section 409A nonqualified deferred compensation plan that doesn't meet the requirements of section 409A. See section 409A(a)(1)(B) to figure the interest and additional tax on this income. Report this interest and tax on Schedule 2 (Form 1040), line 17h. This income is included in the amount in either box 4a, Guaranteed payments for services; or box 4b, Guaranteed payments for capital.

- Noncash charitable contributions. If the partnership made a noncash charitable contribution, your share of the partnership's adjusted basis in the property is limited to basis and is reported here.
- Inversion gain. The partnership will provide a statement showing the amounts of each type of income or gain that is included in inversion gain. The partnership has included inversion gain in income elsewhere on Schedule K-1. Inversion gain is also reported under code AH because your taxable income and alternative minimum taxable income cannot be less than the inversion gain. Also, your inversion gain (a) isn't taken into account in figuring the net operating loss (NOL) for the tax year or the NOL that can be carried over to each tax year, (b) may limit your credits, and (c) is treated as income from sources within the United States for the foreign tax credit. See section 7874 for details.
- Qualifying advanced coal project property. Use the amounts the partnership provides you to figure the amounts to report on Form 3468, lines 5a through 5c.
- Qualifying gasification or advanced energy project property. Use the amounts the partnership provides you to figure the amounts to report on Form 3468, lines 6a and 6b.
- Qualified investment in advanced manufacturing investment facility property. Use the amount the partnership provides you to figure the amount to report on Form 3468, line 7.
- The information needed to complete Form 8990, Schedule A, for foreign partners which are required to report their allocable share of excess business interest expense, excess taxable income, and excess business interest income, if any, that is attributable to income effectively connected with a U.S. trade or business. When required, the partnership will make this report on an attached statement to partners that are a foreign corporation or a nonresident alien or partners that are a partnership (domestic or foreign) in which the reporting partnership knows, or has a reason to know, that one or more of the partners is a foreign corporation or nonresident alien
- Conservation reserve program payments. Individuals who received social security retirement or disability benefits, and are partners in farm partnerships that receive conservation reserve program payments, do not pay self-employment tax on their portion of the payments. The partnership will report your portion of the conservation reserve program payments in box 20 using code AH. See Schedule SE (Form 1040) for information on excluding the payment from your calculation of self-employment tax.
- Gross income and gains, as well as losses and deductions attributable to a farming or fishing trade, or business of the partnership.
- 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 reports ordinary gain or loss from the securities or commodities (or both securities and commodities) trading activities separately from any other ordinary gain or loss.
- If the partnership is a section 721(c) partnership, the partnership should include the amounts relating to any remedial items made under the remedial allocation method (described in Regulations section 1.704-3(d) and Regulations section 1.704-3(d)(5)(iii)) with respect to section 721(c) property allocable to each partner. The partnership will include a separate code AH for the total remedial income, if any, allocated to the U.S. transferor; total gain recognized due to an acceleration event; or total gain recognized due to a section 367 transfer reflected on Form 8865, Schedule G, Part II,

columns (c), (d), and (e), respectively. Only the amount of the total remedial income allocated to the U.S. transferor will be included on Schedule K-1, Part III, box 1. Any recognized gain due to an acceleration event or section 367 transfer must be separately reported by the U.S. transferor on its own federal income tax return. For all other partners of the section 721(c) partnership, a separate code AH is used to provide the remedial items allocated to that partner relating to section 721(c) property that was taken into account to determine Part III, box 1. See Regulations sections 1.721(c)-3 and 1.721(c)-6.

- Excess business loss limitation. If the partnership has deductions attributable to a business activity, it will provide a statement showing your distributive share of the aggregate gross income or gain, and aggregate deductions, from the business activity of all of the partnership's trades or businesses. You can use this to figure any excess business loss limitation that may apply. See section 461(l) and Form 461 and its instructions for details.
- 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. See *Section 1061 Reporting Instructions* in Pub. 541.
- Partner's share of the adjusted basis of noncash and capital gain property contributions, and share of the excess of the FMV over the adjusted basis of noncash and capital gain property contributions.
- If the partnership reported an amount in box 20, code V, the partnership also reported an IRA partner's unique EIN in box 20, code AH. See the Instructions for Form 990-T; and Pub. 598, Tax on Unrelated Business Income of Exempt Organizations.
- Any other information you may need to file your return not shown elsewhere on Schedule K-1.

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

## Box 21. Foreign Taxes Paid or Accrued

Foreign taxes paid or accrued reduce a partner's basis and are limited to basis. Do not use this amount to complete your Form 1116 or 1118. See Schedule K-3 to complete your Form 1116 or 1118.

## Box 22. More Than One Activity for At-Risk Purposes

When the partnership has more than one activity for at-risk purposes, it will check this box and attach a statement. Use the information in the attached statement to correctly figure your at-risk limitation. For more information, see the discussion under [At-Risk Limitations](#), earlier.

## Box 23. More than One Activity for Passive Activity Purposes

When the partnership has more than one activity for passive activity purposes, it will check this box and attach a statement. Use the information in the attached statement to correctly figure your passive activity limitation. For more information, see the discussion under [Passive Activity Limitations](#), earlier.

### List of Codes and References Used in Schedule K-1 (Form 1065)

Box Number / Item	Where to report or where to find further reporting information. Page numbers refer to these instructions.
1. Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows.	
Passive loss	See page 9
Passive income	Schedule E (Form 1040), line 28, column (h)
Nonpassive loss	See page 9
Nonpassive income	Schedule E (Form 1040), line 28, column (k)
2. Net rental real estate income (loss)	See page 9

Box Number / Item	Where to report or where to find further reporting information. Page numbers refer to these instructions.
3. Other net rental income (loss)	
Net income	Schedule E (Form 1040), line 28, column (h)
Net loss	See Instructions for Form 8582
4a. Guaranteed payment services	See Instructions for Schedule E (Form 1040)
4b. Guaranteed payment capital	See Instructions for Schedule E (Form 1040)
4c. Guaranteed payment total	See page 9
5. Interest income	Form 1040 or 1040-SR, line 2b
6a. Ordinary dividends	Form 1040 or 1040-SR, line 3b
6b. Qualified dividends	Form 1040 or 1040-SR, line 3a
6c. Dividend equivalents	See page 10
7. Royalties	Schedule E (Form 1040), line 4
8. Net short-term capital gain (loss)	Schedule D (Form 1040), line 5
9a. Net long-term capital gain (loss)	Schedule D (Form 1040), line 12
9b. Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D instructions)
9c. Unrecaptured section 1250 gain	See page 10
10. Net section 1231 gain (loss)	See page 10
11. Other income (loss)	
Code A. Other portfolio income (loss)	See page 10
Code B. Involuntary conversions	See page 11
Code C. Section 1256 contracts & straddles	Form 6781, line 1
Code D. Mining exploration costs recapture	See Pub. 535
Code E. Cancellation of debt	See page 11
Code F. Section 743(b) positive adjustments	See page 11
Code G. Reserved for future use	
Code H. Section 951(a) income inclusions	See page 11
Code I. Other income (loss)	See page 11
12. Section 179 deduction	See page 12
13. Other deductions	
Code A. Cash contributions (60%)	See page 12
Code B. Cash contributions (30%)	See page 12
Code C. Noncash contributions (50%)	See page 12
Code D. Noncash contributions (30%)	See page 13
Code E. Capital gain property to a 50% organization (30%)	See page 13
Code F. Capital gain property (20%)	See page 13
Code G. Contributions (100%)	See page 13
Code H. Investment interest expense	Form 4952, line 1
Code I. Deductions—royalty income	Schedule E (Form 1040), line 19
Code J. Section 59(e)(2) expenditures	See page 13
Code K. Excess business interest expense	See page 13
Code L. Deductions—portfolio income (other)	Schedule A (Form 1040), line 16
Code M. Amounts paid for medical insurance	Schedule A (Form 1040), line 1; or Schedule 1 (Form 1040), line 17
Code N. Educational assistance benefits	See page 13
Code O. Dependent care benefits	Form 2441, line 12
Code P. Preproductive period expenses	See page 13
Code Q. Reserved for future use	
Code R. Pensions and IRAs	See page 13
Code S. Reforestation expense deduction	See page 14
Codes T through U. Reserved for future use	
Code V. Section 743(b) negative adjustments	See page 14
Code W. Other deductions	See page 14
Code X. Reserved for future use	
14. Self-employment earnings (loss)	
<b>Note.</b> If you have a section 179 deduction or any partner-level deductions, see page 14 before completing Schedule SE (Form 1040).	
Code A. Net earnings (loss) from self-employment	Schedule SE (Form 1040)
Code B. Gross farming or fishing income	See page 14
Code C. Gross nonfarm income	See page 14
15. Credits	
Code A. Reserved for future use	
Code B. Reserved for future use	
Code C. Low-income housing credit (section 42(j)(5)) from post-2007 buildings	See page 15
Code D. Low-income housing credit (other) from post-2007 buildings	See page 15
Code E. Qualified rehabilitation expenditures (rental real estate)	See page 15
Code F. Other rental real estate credits	See page 15
Code G. Other rental credits	See page 15

Box Number / Item	Where to report or where to find further reporting information. Page numbers refer to these instructions.
Code H. Undistributed capital gains credit	Schedule 3 (Form 1040), line 13a
Code I. Biofuel producer credit	See page 15
Code J. Work opportunity credit	See page 15
Code K. Disabled access credit	See page 15
Code L. Empowerment zone employment credit	See page 15
Code M. Credit for increasing research activities	See page 15
Code N. Credit for employer social security and Medicare taxes	See page 15
Code O. Backup withholding	See page 15
Code P. Other credits	See page 15
17. Alternative minimum tax (AMT) items	
Code A. Post-1986 depreciation adjustment	See Instructions for Form 6251
Code B. Adjusted gain or loss	See Instructions for Form 6251
Code C. Depletion (other than oil & gas)	See Instructions for Form 6251
Code D. Oil, gas, and geothermal—gross income	See Instructions for Form 6251
Code E. Oil, gas, and geothermal—deductions	See Instructions for Form 6251
Code F. Other AMT items	See Instructions for Form 6251
18. Tax-exempt income and nondeductible expenses	
Code A. Tax-exempt interest income	Form 1040 or 1040-SR, line 2a
Code B. Other tax-exempt income	See page 16
Code C. Nondeductible expenses	See page 16
19. Distributions	
Code A. Cash and marketable securities	See page 16
Code B. Distribution subject to section 737	See page 16
Code C. Other property	See page 17
20. Other information	
Code A. Investment income	Form 4952, line 4a
Code B. Investment expenses	Form 4952, line 5
Code C. Fuel tax credit information	Form 4136
Code D. Qualified rehabilitation expenditures (other than rental real estate)	See page 17
Code E. Basis of energy property	See page 17
Code F. Recapture of low-income housing credit for section 42(j)(5) partnerships	See page 17
Code G. Recapture of low-income housing credit for other partnerships	See page 17
Code H. Recapture of investment credit	See Form 4255
Code I. Recapture of other credits	See page 17
Code J. Look-back interest—completed long-term contracts	See Form 8697
Code K. Look-back interest—income forecast method	See Form 8866
Code L. Dispositions of property with section 179 deductions	See page 17
Code M. Recapture of section 179 deduction	See page 18
Code N. Business interest expense (information item)	See page 18
Code O. Section 453(l)(3) information	Schedule 2 (Form 1040), line 14
Code P. Section 453A(c) information	Schedule 2 (Form 1040), line 15
Code Q. Section 1260(b) information	Schedule 2 (Form 1040), line 17z
Code R. Interest allocable to production expenditures	See Regulations sections 1.263A-8 through 15
Code S. Capital construction fund (CCF) nonqualified withdrawals	Schedule 2 (Form 1040), line 17z
Code T. Depletion deduction	See Pub. 535
Code U. Section 743(b) basis adjustment	See page 18
Code V. Unrelated business taxable income	See page 18
Code W. Precontribution gain (loss)	Form 8949 and/or Schedule D (Form 1040); or Form 4797
Code X. Reserved for future use	
Code Y. Net investment income	See Instructions for Form 8960
Code Z. Section 199A information	Form 8995 or Form 8995-A
Code AA. Section 704(c) information	See page 19
Code AB. Section 751 gain (loss)	See page 19
Code AC. Section 1(h)(5) gain (loss)	See page 19
Code AD. Deemed section 1250 unrecaptured gain	See page 19
Code AE. Excess taxable income	See Instructions for Form 8990
Code AF. Excess business interest income	See page 19
Code AG. Gross receipts for section 448(c)	See page 19
Code AH. Other information	See page 20
21. Foreign taxes paid or accrued	
	See page 20