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## 2017 TAX INSTRUCTION BOOKLET

**DOWNLOAD YOUR TAX INFORMATION FROM THE CEDAR FAIR INVESTOR RELATIONS WEBSITE  
[IR.CEDARFAIR.COM](http://IR.CEDARFAIR.COM)**

**This instruction booklet is intended to address the most common tax reporting situations encountered by our partners. These instructions are not intended to address every situation. Consultation with a qualified tax advisor is strongly recommended.**

### PART I – GENERAL TAX INFORMATION

Cedar Fair, L.P. (the Partnership), doing business as Cedar Fair Entertainment Company, is a Publicly Traded Limited Partnership (PTP). Its units are traded on the New York Stock Exchange under the ticker symbol “FUN.” For tax purposes it is a partnership, not a corporation, and cash distributions are not treated as dividends. In a partnership, partners are allocated taxable income or loss, deductions and adjustments based upon their pro rata ownership of Partnership units and the number of months during the current tax year that these units are owned. The amount of your taxable income or loss does not directly correspond to the Partnership’s financial reporting income or the amount of cash distributed to you during the year. Your current year taxable income or loss from the Partnership is reported on the Federal Schedule K-1 that is included with your Income Tax Reporting Package that you received in the mail or online.

The Tax Reporting Package includes all income or loss amounts needed to complete your current year Federal and State Income Tax Returns and contains references to the federal forms used in preparing your Federal Individual Income Tax Return. An example of how to complete your federal return is illustrated in Part V of the Tax Instruction Booklet, the Graphic Guide. If you sold units during the year see Part III of the Tax Instruction Booklet on reporting your gain or loss. Partners who need additional federal schedules or forms may contact the IRS at 800-829-3676 or download forms from the IRS website [www.irs.gov](http://www.irs.gov).

The Partnership will electronically file a copy of each partner’s Schedule K-1 with the IRS in Ogden, UT with its Partnership Tax Return unless notified by each partner of necessary corrections prior to May 31, 2018. Partners are required to treat Partnership items on their individual returns consistently with the treatment on the Partnership’s return, unless the IRS is properly notified of the inconsistency. Changes made to the partner’s information after May 31<sup>st</sup> must be reported by the partner to the IRS on Form 8082 – Notice of Inconsistent Treatment or Administrative Adjustment Request. An audit of the Partnership’s tax returns could result in an adjustment of the tax liability of a partner without any examination of the partner’s tax return. Any such audit could also result in an audit of a partner’s entire tax return and cause adjustments to be made to non-partnership items.

### Limitations on Losses Including Passive Activity Losses

Many partners will be allocated net taxable income rather than net tax losses for the tax year. However, the basis adjustment rules under IRC Section 743 provide additional allocations of depreciation and amortization expenses that may result in net tax loss allocations to some partners. If you have an overall gain from the Partnership, the net gain (total gain minus losses) is nonpassive income. If you have an overall loss, and did not dispose of your entire interest in the Partnership, the loss is considered a passive loss. Current deduction of net tax losses from the Partnership may be limited. Please see the IRS Partner’s Instructions for Schedule K-1 (Form 1065), specifically the section labeled “Limitations on Losses, Deductions, and Credits”. Pay particular attention to the specific instructions for “Publicly Traded Partnerships”. If you are filing a Form 1040, you may also refer to the IRS Instructions for Schedule E (Form 1040) under “At-Risk Rules” and “Passive Activity Loss Rules”. A summary of how to report items of net tax income or loss is provided in Part II. Please contact your tax advisor if you need additional information.

### Individuals, Trusts and Estates (Line 20 Code Y and Gains on Unit Sales)

Absent material participation in the operations of Cedar Fair, L.P. or another exception, Cedar Fair, L.P. expects that all of the items of income, gain, loss and deduction reported to you on the Schedule K-1 and any gains on the sale of Partnership units would be considered net investment income for purposes of IRC Section 1411 and potentially subject to a 3.8% surtax. See IRS Form 8960 Net Investment Income Tax and its instructions for further explanation of who is subject to the surtax. Please contact your tax advisor if you need additional information.

### Individual Retirement Accounts (IRA) and Tax Exempt Entities (Line 20 Codes V and Z)

IRAs and tax-exempt entities with more than \$1,000 of Unrelated Business **Gross** Income (UBGI) are required to file a tax return (Form 990-T). UBGI is identified as Line 20 code Z on your Schedule K-1 and is located on the Federal Supplemental Information Schedule that is included in your tax package. **Income from Cedar Fair, L.P. is considered Unrelated Business Taxable Income (UBTI)** and is reported on Line 20 code V of your Schedule K-1. Do not report income or loss allocated to units held in your IRA on your individual tax return. Contact your IRA Custodian or tax advisor for more information regarding federal and state filing requirements.

## PART II – WHAT TO INCLUDE ON YOUR FEDERAL INDIVIDUAL INCOME TAX RETURN

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 Partnership. If the sum of the amounts on Lines 1 and 10 of your Federal Schedule K-1 combine to result in a loss, do not include the amounts reported on Lines 1, 9c, 10, or 17 codes A and B of your Schedule K-1 on your Individual Income Tax Return unless you disposed of your **entire** interest in the Partnership during the year. However, report the amount on Line 5 of your Schedule K-1 on your Individual Income Tax Return regardless of the result of the sum of Lines 1 and 10 of your Schedule K-1.

A loss resulting from the sum of the amounts on Lines 1 and 10 of your Schedule K-1 is considered passive and is only deductible in the current year to the extent that you have income from the same Partnership. Any Cedar Fair, L.P. unallowed loss is suspended and carried forward to offset future taxable income from Cedar Fair, L.P. Any unused losses can be recognized upon disposition of your **entire** interest in the Partnership. Retain your Schedule K-1 and maintain a record of all unallowed losses from this Partnership to support your tax reporting in future years. The Partnership cannot keep such records for you. See the instructions to IRS Form 8582 for worksheets that may assist you in keeping track of your suspended losses.

Absent material participation in the operation of Cedar Fair, L.P. or another exception, Cedar Fair, L.P. expects that all of the items of income, gain, loss and deduction reported to you on the Schedule K-1 and any gains on the sale of Partnership units would be considered net investment income for purposes of IRC Section 1411 and potentially subject to a 3.8% surtax. See IRS Form 8960 Net Investment Income Tax and its instructions for further explanation of who is subject to the surtax.

The Graphic Guide in Part V of this instruction booklet is an illustrated example of how to transfer the information from your Schedule K-1 to your Federal Individual Income Tax Return. Steps (1) – (4) below explain how to insert the numbers on the tax forms.

### **Step (1) SCHEDULE E (FORM 1040) – Supplemental Income and Loss and FORM 4797 – Sales of Business Property**

First, the following information must be completed: On Schedule E, Part II, Line 27: if you have carryforward losses from a prior year check the “Yes” box. On Schedule E, Part II, Line 28A, insert “Cedar Fair, L.P. – PTP” in Column (a), insert “P” in Column (b), and insert “34-1560655” in Column (d). Next, if the sum of the amounts reported on Lines 1 and 10 of your Schedule K-1, less any prior year unallowed Cedar Fair, L.P. losses carried forward, is positive, you have overall net tax income and you should follow Step (1a) below. If the sum is negative, you have overall net tax loss and should instead follow Step (1b) below:

#### **Step (1a) OVERALL NET TAX INCOME/GAIN – NONPASSIVE**

- **If you do not have prior year unallowed losses carried forward :**

**DO THIS:** On Schedule E, Part II, Line 28A, Column (j), insert the positive amount reported on Line 1 of your Schedule K-1, listed as the Ordinary business income (loss). “A” on the Graphic Guide. Also insert “From PTP” to the left of the amount, and:

**DO THIS:** On Form 4797, Part I, Line 2, Column (g), insert the amount, if applicable, reported on Line 10 of your Schedule K-1, listed as Net section 1231 gain (loss). “D” on the Graphic Guide. Also insert “From Cedar Fair, L.P. K-1 PTP” for the description. GO TO STEP (2).

- **If you do have prior year unallowed losses carried forward :**

**DO THIS:** For this part only, enter all amounts as positive amounts. On Schedule E, Part II, Line 28A, Column (g), insert the prior year Ordinary loss carryforward amount but not more than the income amount reported on Line 1 of your Schedule K-1. On Schedule E, Part II, Line 28A, Column (j), insert the amount by which Line 1 of the K-1 exceeds the amount reported in Line 28A, Column (g). On Schedule E, Part II, Line 28B, Column (f), insert the prior year Ordinary loss carryforward amount. Also insert “PYA From PTP” in Column (a) for Line 28B. In Column (b) for Line 28B insert “P”. In Column (d) for Line 28B insert “34-1560655”, and :

**DO THIS:** On Form 4797, Part I, Line 2, Column (g), insert the amount reported on Line 10 of your Schedule K-1, listed as Net section 1231 gain (loss). “D” on the Graphic Guide. Also insert “From Cedar Fair, L.P. K-1 PTP” for the description. On the next Line in Column (g) insert any Net section 1231 loss carryforward amount. Also insert “From Cedar Fair, L.P. K-1 – PTP – Passive Loss Allowed” for the description.

#### **Step (1b) OVERALL NET TAX LOSS – PASSIVE**

Prior year suspended losses may be deductible in the current year only to the extent you have been allocated income from the Partnership, and any excess loss is carried forward to use in a future year when either you have Cedar Fair, L.P. income to offset it or you sell your **entire** interest in Cedar Fair, L.P. Unallowed losses cannot be carried back. If you did not own any units at December 31<sup>st</sup> and you sold all of your units during the year, see **UNITS SOLD** section.

Absent material participation in the operation of Cedar Fair, L.P. or another exception, Cedar Fair, L.P. expects that all of the items of income, gain, loss and deduction reported to you on the Schedule K-1 and any gains on the sale of Partnership units would be considered net investment income for purposes of IRC Section 1411 and potentially subject to a 3.8% surtax. See IRS Form 8960 Net Investment Income Tax and its instructions for further explanation of who is subject to the surtax.

- **If the sum of amounts reported on Lines 1 and 10 are negative:**

The overall loss is **not** deductible in the current year and you do **not** need to file Schedule E (Form 1040) or Form 4797 for your interest in Cedar Fair, L.P. Instead, you should keep a record of the overall loss allocated to you from Cedar Fair, L.P. to support the tax reporting in future years when you may be allocated income from the Partnership or when you dispose of your **entire** interest in the Partnership. GO TO STEP (2).

• **If the amount reported on Line 1 is positive and the amount reported on Line 10 is negative:**

**DO THIS:** On Line 28A, Part II of Schedule E, Column (g), insert the positive amount of Ordinary business income on Line 1 of the Schedule K-1. On Line 28B, Part II of Schedule E, Column (f) insert any ordinary loss carryforward, but only up to the amount of income reported on Line 28A, Column (g). Also insert on Line 28B, Column (a) "PYA From PTP". In Column (b) for Line 28B insert "P". In Column (d) for Line 28B insert "34-1560655", and

**DO THIS:** If you still have income from Cedar Fair on Schedule E after the ordinary loss carryforward, on Line 2 of Part I of Form 4797, Column (g), insert the amount on Line 10 of your Schedule K-1 listed as Net section 1231 gain (loss), and on the next line any Net section 1231 (loss) carryforward, but only to the extent of the excess income on Schedule E. Also insert "From Cedar Fair, L.P. K-1 – PTP" and "From Cedar Fair, L.P. K-1 – PTP Passive Loss Allowed" for the descriptions. GO TO STEP (2).

## **UNITS SOLD**

If you sold your **entire** interest in Cedar Fair, L.P. on or before December 31<sup>st</sup>, any losses reported on Lines 1 and 10 of your Schedule K-1 and all prior year unallowed losses carried forward are fully deductible in the current year.

**DO THIS:** On Schedule E, Part II, Line 28A, Column (g), insert the amount of Ordinary business income from Line 1 of the Schedule K-1. On Line 28B, Part II of Schedule E, Column (f) insert any ordinary loss carryforward. Also insert in Line 28B, Column (a) "PYA From PTP". In Column (b) for Line 28B insert "P". In Column (d) for Line 28B insert "34-1560655", and

**DO THIS:** On Form 4797, Part I, Line 2, Column (g), insert the amount reported on Line 10 of your Schedule K-1, listed as Net section 1231 gain (loss). "D" on the Graphic Guide. Also insert "From Cedar Fair, L.P. K-1 – PTP" for the description. On the next line in Column (g) insert any Net section 1231 loss carryforward amount. Also insert "From Cedar Fair, L.P. K-1 – PTP Passive Loss Allowed" for the description. IF NO AMOUNTS ARE REPORTED AS NET SECTION 1231 GAIN (LOSS), GO TO STEP (2).

## **Step (2) SCHEDULE B OF IRS FORM 1040 – Interest Income**

You may have been allocated a share of interest income earned by the Partnership. If no amount is reported as Interest Income, GO TO STEP (3). If an amount is reported as Interest Income:

**DO THIS:** On Schedule B, Part I, Line 1 list "Cedar Fair, L.P." as the name of payer and insert the amount reported on Line 5 of your Schedule K-1, listed as the Interest Income. "B" on the Graphic Guide.

## **Step (3) IRS FORM 4952 – Investment Interest Expense Deduction**

Individuals with investment income may be able to claim a deduction for investment interest expense and should complete Form 4952. Individuals generally must itemize deductions to claim an investment interest deduction.

Note that for Cedar Fair, L.P. the investment income amount is actually the sum of Lines 1, 5, and 10. Line 20 A or "G" on the Graphic Guide. If you have an overall net tax loss or are utilizing prior year suspended losses, you will have to adjust your Net Investment Income accordingly. Please contact your tax advisor if you need additional information. If you are claiming investment interest expense:

**DO THIS:** On Form 4952, Part II, Line 4a include the amount reported on Line 20 code A of your Schedule K-1, together with any other investment income. "G" on the Graphic Guide.

**NOTE:** If you sold units during the year, the Ordinary Gain on Column (8) of the Sales Schedule should be included on Form 4952, Line 4(a). "N" on the Graphic Guide.

## **Step (4) IRS FORM 6251 – Alternative Minimum Tax – Individuals**

Certain individuals may be subject to the Federal Alternative Minimum Tax (AMT). Since the Partnership has tax adjustments from the use of accelerated depreciation methods, complete Form 6251 to determine if you are subject to AMT. If you claimed deductible investment interest expense in Step (3), there may be an adjustment for AMT. Please refer to the instructions for Form 6251 Alternative Minimum Tax and contact your tax advisor.

### **Step (4a) OVERALL NET TAX INCOME/GAIN – NONPASSIVE**

**DO THIS:** On Form 6251, Part I, Lines 17 and 18 (Disposition of property and Post-1986 depreciation) insert the amount reported on Lines 17 code B and A, respectively, of your Schedule K-1 listed as Adjusted gain or loss and Post – 1986 Depreciation adjustment. "F" & "E" on the Graphic Guide. If applicable, include any AMT loss carryforward from Cedar Fair, L.P. to the extent allowable, see instructions for Line 19. Complete the other applicable lines on the form to see if you are subject to the alternative minimum tax.

## **Step (4b) OVERALL NET TAX LOSS – PASSIVE**

**DO THIS:** Add the amounts reported on Lines 17 codes A and B of your Schedule K-1 to the amounts reported on Lines 1 and 10 of your Schedule K-1. The net amount should be carried forward as an AMT adjustment. See the instructions to Form 6251 for further information.

## **PART III – IF YOU SOLD UNITS**

See the Graphic Guide in Part V of this instruction booklet for an illustration of how to report the gain or loss on your Federal Individual Income Tax Return. Partners who had a sale of Partnership units during the year should receive a partially completed Sales Schedule containing instructions and information necessary to determine your gain or loss. If you did not sell Partnership units during the year, you may disregard this section of the instructions.

You should recognize a gain from the sale of Partnership units if the sales proceeds exceed your adjusted tax basis in the units sold. Conversely, you should recognize a loss if your adjusted tax basis in the units sold exceeds the sales proceeds. If you have a loss and you disposed of only a portion of units you may still be subject to the loss limitation rules. Absent material participation in the operation of Cedar Fair, L.P. or another exception, Cedar Fair, L.P. expects that all of the items of income, gain, loss and deduction reported to you on the Schedule K-1 and any gains on the sale of Partnership units would be considered net investment income for purposes of IRC Section 1411 and potentially subject to a 3.8% surtax. See IRS Form 8960 Net Investment Income Tax and its instructions for further explanation of who is subject to the surtax. Please contact your tax advisor for the appropriate tax treatment.

### **Note Regarding Purchase Amount, Column (5)**

If you acquired your units by some means other than purchase, consult your tax advisor and refer to the summary below:

**Gift** – Use the donor’s basis increased by any gift tax paid on the appreciation at the date of the gift or the depreciation recapture recognized as ordinary income under IRC Section 751. However, if you will recognize a loss on your sale of Partnership units, use the lesser of the donor’s adjusted basis or the fair market value of the units at the date of the gift.

**Inheritance** – Use the fair market value on the date of death or alternative valuation date, whichever the estate used.

## **How To Report Your Sale On Your Federal Individual Income Tax Return – Follow Steps (1) – (5)**

### **Step (1) SALES SCHEDULE**

**DO THIS:** Based on the instructions on the schedule, complete the Disposition Worksheet in order to calculate your gain or loss.

### **Step (2) IRS FORM 4797 – Sales of Business Property**

**DO THIS:** Include the total Ordinary Gain, Column (8) from your Sales Schedule, on page 2 of Form 4797, Part III, Lines 24, 25a, and 25b. “N” on the Graphic Guide. Carry the number down to Lines 30 and 31 and over to Line 13 on page 1. Carry down this amount to Line 18 and report the number on Form 1040, Line 14.

### **Step (3) IRS FORM 8949, Sales and Other Dispositions of Capital Assets**

**DO THIS:** On Form 8949, prepare a separate entry for each sale listed on your Sales Schedule.

**SHORT-TERM CAPITAL GAIN OR LOSS:** If you held the units less than one year, report the sale on Part I of Form 8949, in Columns (a through h). Column (f) should be completed by inserting code “B”.

**LONG-TERM CAPITAL GAIN OR LOSS:** If you held the units longer than one year, report the sale on Part II of Form 8949, in Columns (a through h). “H through M” on the Graphic Guide. Column (f) should be completed by inserting code “B”.

Transfer resulting amounts to IRS Form 1040, Schedule D – Capital Gains and Losses and complete the remainder of the form according to the IRS Instructions.

**UNRECAPTURED SECTION 1250 GAIN:** Report the amount in Column (10) of your Sales Schedule on Schedule D’s 1250 worksheet, Line 10. “O” on the Graphic Guide. The worksheet is part of the Schedule D instructions. Complete the worksheet and enter the result on Schedule D, Line 19.

### **Step (4) IRS FORM 6251 – Alternative Minimum Tax – Individuals**

**DO THIS:** Amounts entered in the AMT Adjustment Columns should be considered when completing Form 6251. On Form 6251, Part I, Line 17 (Disposition of property), include the amount reported in Column (11) of your Sales Schedule. “P” on the Graphic Guide.

## Step (5) IRC SECTION 751 STATEMENT

**DO THIS:** You should complete and attach IRC Section 751 Statement to your current year Federal Income Tax Return.

IRC Section 751 Statement	
TAXPAYER NAME:	_____
TAXPAYER I.D. NO.:	_____
The amount of ordinary income reported as a result of the sale of Cedar Fair, L.P. units was computed in accordance with IRC Section 751. Detailed information is available at the office of the General Partner, located at One Cedar Point Drive, Sandusky, Ohio, 44870-5259.	

## PART IV – STATE AND LOCAL FILING INFORMATION

### Nonresident State Tax Filing Information

The Partnership's income or loss allocated to you is earned in the states listed in the table below. For most partners, the information reported on the Schedule K-1 will provide you with the information necessary to prepare your Nonresident State Income Tax Returns. The Pennsylvania information presented is a substitute for Pennsylvania Form NRK-1.

The laws of these states vary as to whether investors must file income tax returns (and pay taxes) even if they do not reside in the states. The Partnership does NOT pay state income taxes on its partners' behalf. Each partner's portion of the Partnership's Ordinary Income or Loss, Net Section 1231 Gain or Loss and Interest Income from the states are reported on the State Schedule, Nonresident State Information Section, Columns (1) through (3) instead of on the actual state forms. The total apportioned state amounts may not agree with the total Federal amount reported. The chart below details where to order forms for the states.

STATE	INDIVIDUAL TAX FORMS	REQUESTING FORMS
CA	540 and 540NR	Phone:(800) 338-0505 or <a href="http://www.ftb.ca.gov">www.ftb.ca.gov</a>
MI	MI-1040 and Schedule NR	Phone:(517) 636-4486 or <a href="http://www.michigan.gov/taxes">www.michigan.gov/taxes</a>
MN	M-1 and M-1NR	Phone:(651) 296-4444 or <a href="http://www.revenue.state.mn.us">www.revenue.state.mn.us</a>
MO	MO-1040 and MO-NRI	Phone:(800) 877-6881 or <a href="http://dor.mo.gov">http://dor.mo.gov</a>
NC	400-D	Phone:(877) 252-3052 or <a href="http://www.dor.state.nc.us">www.dor.state.nc.us</a>
OH	IT-1040	Phone:(800) 282-1782 or <a href="http://tax.ohio.gov">http://tax.ohio.gov</a>
PA	PA-40	Phone:(888) 728-2937 or <a href="http://www.revenue.pa.gov">www.revenue.pa.gov</a>
SC	SC-1040 and SC-1040 NR	Phone:(800) 768-3676 or <a href="https://dor.sc.gov">https://dor.sc.gov</a>
VA	760 and 763	Phone:(804) 367-8031 or <a href="http://www.tax.virginia.gov">www.tax.virginia.gov</a>

**NOTE:** Partners can access our website for additional information relating to the entity's share of the Partnership's State and City apportionment factors.

### Resident State Tax Filing Information

**Pennsylvania Residents** must use the information reported on the State Schedule, Resident State Information Section, as substitute for Pennsylvania Form RK-1, which reflects depreciation and amortization differences under Pennsylvania law.

### Additional State and Local Tax Information

The Partnership derives income in the following jurisdictions where the Partnership paid taxes on apportioned income: City of Sandusky, Ohio, City of Aurora, Ohio and City of Kansas City, Missouri. Please visit our website to access additional information regarding local taxes paid by the partnership. This information may be necessary to properly compute your state and local tax liability. The Partnership is not required to pay income taxes for its other locations.

**Due to frequent changes in state and local tax laws, Cedar Fair, L.P. suggests you consult the state and/or your tax advisor with respect to your particular situation and tax consequences arising from your investment in the Partnership.**

**IMPORTANT NOTICE:** The information in the enclosed tax package is provided by the Partnership to assist you in preparing your personal tax return. The information reflects the application of various assumptions and conventions, as disclosed by the Partnership to you in various SEC filings and other offering documents. It is anticipated that the Partnership may provide disclosure of certain of these assumptions and conventions in the preparation of the Partnership return as required by the Internal Revenue Service and/or other taxing authorities. We suggest that you refer to the appropriate federal and state income tax laws, instructions, and SEC filings and other offering documents, and that you consult your tax advisor with any questions. You should discuss with your tax advisor whether the treatment of any items in the enclosed tax package may subject you and/or your tax advisor to a penalty by a taxing authority and the need to adequately disclose any items in order to avoid such penalty.

# GRAPHIC GUIDE

The Partnership has included this Graphic Guide to assist you in preparing your Federal Income Tax Return. The amounts reported in the Federal Information Section of your Schedule K-1 and also your Sales Schedule are represented by letters.

## Part V - Graphic Guide

Follow the arrows for each letter to locate the line on the appropriate federal form in which to report your federal amounts. For example, the letter "A" represents the amount of Ordinary Income or Loss (-), which should be reported on page 2, column (j) of Schedule E, Supplemental Income and Loss Schedule. Also, fill out the forms and schedules as indicated in red. On your Schedule K-1 Line 20 Codes V and Z are used by IRA's and Tax-Exempt entities only.

The above example assumes that you held the units longer than one year. If you held the units less than one year, report the sale on Part I, Line 1 instead of Part II, Line 3 of Form 8949.

# 2017



Department of the Treasury  
Internal Revenue Service

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

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

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

### Future Developments

For the latest information about developments related to Schedule K-1 (Form 1065) and the Partner's Instructions for Schedule K-1 (Form 1065), such as legislation enacted after they were published, go to [www.irs.gov/form1065](http://www.irs.gov/form1065).

### General Instructions

#### Purpose of Schedule K-1

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

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

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

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

#### Inconsistent Treatment of Items

Generally, you must report partnership items shown on your Schedule K-1 (and any attached statements) the same way that the partnership treated the items on its return. This rule does not apply if your partnership is within the "small partnership exception" and doesn't elect to have the tax treatment of partnership items determined at the partnership level.

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. If you are a partner in a partnership that doesn't meet the small partnership exception and you report any partnership item on your return in a manner different from the way the partnership reported it, you must file Form 8082.

#### Sale or Exchange of Partnership Interest

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

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

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

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

**Tip.** Gain or loss for the disposition of your partnership interest is generally 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.

#### 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 \$260 penalty for each failure. The maximum penalty is \$3,218,500 for all such failures during a calendar year. If the nominee intentionally disregards the requirement to report correct information, each \$260 penalty increases to \$530 or, if greater, 10% of the aggregate amount of items required to be reported, and there is no limit to the amount of the penalty.

#### International Boycotts

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

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

### Definitions

#### General Partner

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

#### Limited Partner

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

#### Nonrecourse Loans

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

#### Elections

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

- Section 59(e) (deduction of certain qualified expenditures 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).

#### Additional Information

For more information on the treatment of partnership income, deductions, credits, etc., 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 Rules

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 above to figure the basis of your interest in the partnership.

For more details on the basis rules, see Pub. 541, Partnerships.

**At-Risk Limitations**

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

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

**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 participated.
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.

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.

**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 in 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

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

*Keep for Your Records*



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 2016 Schedule K-1 from your share of liabilities shown in item K of your 2017 Schedule K-1 and add the amount of any partnership liabilities you assumed during the tax year (but not less than zero))	3. _____
4. 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	4. _____
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 2017 Schedule K-1 from your share of liabilities shown in item K of your 2016 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	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	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. _____
<b>Caution:</b> 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 <i>Basis Limitations</i> , below, for more information.)	



trade or business activity in which you participated for more than 100 hours during the year and in which you didn't materially participate under any of the material participation tests (other than this test).

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

6. The activity was a personal service activity and you materially participated in the activity for any 3 tax years (whether or not consecutive) preceding the tax year. A personal service activity involves the performance of personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other trade or business in which capital isn't a material income-producing factor.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Do not report passive income, gains, or losses

from a PTP on Form 8582. Instead, use the following rules to figure and report on the proper form or schedule your income, gains, and losses from passive activities that you held through each PTP you owned during the tax year.

1. Combine any current year income, gains and losses, and any prior year unallowed losses to see if you have an overall gain or loss from the PTP. Include only the same types of income and losses you would include in your net income or loss from a non-PTP passive activity. See Pub. 925, Passive Activity and At-Risk Rules, for more details.

2. If you have an overall gain, the net gain portion (total gain minus total losses) is nonpassive income. On the form or schedule you normally use, report the net gain portion as nonpassive income and the remaining income and the total losses as passive income and loss. To the left of the entry space, enter "From PTP." It is important to identify the nonpassive income because the nonpassive portion is included in modified adjusted gross income for purposes of figuring on Form 8582 the "special allowance" for active participation in a non-PTP rental real estate activity. In addition, the nonpassive income is included in investment income when figuring your investment interest expense deduction on Form 4952, Investment Interest Expense Deduction.

**Example.** If you have Schedule E (Form 1040) income of \$8,000, and a Form 4797, Sales of Business Property, prior year unallowed loss of \$3,500 from the passive activities of a particular PTP, you have a \$4,500 overall gain (\$8,000 - \$3,500). On Schedule E (Form 1040), line 28, report the \$4,500 net gain as nonpassive income in column (j). In column (g), 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 (f). Carry forward to 2018 the unallowed loss of \$4,800 (\$12,000 - \$7,200).

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

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

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

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

**Special allowance for a rental real estate activity.** If

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

Only individuals, qualifying estates, and qualifying revocable trusts that made a section 645 election can actively participate in a rental real estate activity. Estates (other than qualifying estates), trusts (other than qualifying revocable trusts that made a section 645 election), and corporations cannot actively participate. Limited 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 limitation.** The maximum special allowance that single individuals and married individuals filing a joint return can qualify for is \$25,000. The maximum is \$12,500 for married individuals who file separate returns and who lived apart at all times during the year. The maximum special allowance for which an estate can qualify is \$25,000 reduced by the special allowance for which the surviving spouse qualifies.

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

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

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

#### **Commercial revitalization deduction.**

The special \$25,000 allowance for the commercial revitalization deduction from rental real estate activities isn't subject to the active participation rules or modified adjusted gross income limits discussed earlier. See the instructions for box 13, code Q, for more information.

#### **Special rules for certain other activities.**

If you have net income (loss), deductions, or credits from any activity 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 recharterization under Temporary Regulations section 1.469-2T(f) and Regulations section 1.469-2(f), report such amounts according to the Instructions for Form 8582 (or Form 8810). If you have net income (loss), deductions, or credits from any of the following activities, treat such amounts as nonpassive and report them as indicated in these instructions.

1. Working interests in oil and gas wells 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.

## Specific Instructions

### Part I. Information About the Partnership Item D

If the box in item D is checked, you are a partner in a publicly traded partnership and must follow the rules discussed, earlier, under *Publicly traded partnerships*.

### Part II. Information About the Partner Item E

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

### Item J

Generally, the amounts reported in item J are based on the partnership agreement. If your interest commenced 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.

### Item K

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

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

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

If your partnership is engaged in two or more different types of activities subject to the at-risk provisions, or a combination of at-risk activities and

any other activity, the partnership should give you a statement showing your share of nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other recourse liabilities for each activity.

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

Qualified persons include any persons actively and regularly engaged in the business of lending money, such as a bank or savings and loan association. Qualified persons generally do not include related parties (unless the nonrecourse financing is commercially reasonable and on substantially the same terms as loans involving unrelated persons), the seller of the property, or a person who receives a fee for the partnership's investment in the real property. See Pub. 925 for more information on qualified nonrecourse financing.

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

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

### Item M

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

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

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

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

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

For information on these provisions, see *Limitations on Losses, Deductions, and Credits*, earlier. Other limitations may apply to specific deductions (for example, the section 179 expense deduction). Generally, specific limitations apply before at-risk and passive loss limitations.

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

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

The line numbers in the summarized reporting information on page 2 of Schedule K-1 are references to forms in use for calendar year 2017. 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 2018, report the amounts on your 2018 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 rules or the at-risk limitations, take them into account in determining your net income, loss, or credits for this year. However, except for passive activity losses and credits, do not combine the prior year amounts with any amounts shown on this Schedule K-1 to get a net figure to report on any supporting schedules, statements, or forms attached to your return. Instead, report the amounts on the attached schedule, statement, or form on a year-by-year basis.

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

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

**Codes.** In box 11 and boxes 13 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 on page 2 of Schedule K-1 and in 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 cannot 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 depends on whether the amount is from an activity that is a passive activity to you. If you are an individual partner filing a 2017 Form 1040, find your situation below and report your box 1 income (loss) as instructed, after applying the basis and at-risk limitations on losses. If the partnership had more than one trade or business activity, it will attach a statement identifying the income or loss from each activity.

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

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 (g). 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 (f). However, if the box in item D is checked, report the loss following the rules for *Publicly traded partnerships*, earlier.

### Portfolio Income

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

## Box 5. Interest Income

Report interest income on line 8a of Form 1040. If the amount of interest income included in box 5 includes interest from the credit for holders of clean renewable energy bonds, the partnership will attach a statement to Schedule K-1 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 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.

**Caution.** If you have any foreign source unrecaptured section 1250 gain, see the instructions for box 16, later.

## 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 did not materially participate.

However, an amount from a rental real estate activity is not 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 is not from a passive activity or (b) a gain, report it on line 2, column (g), of Form 4797, Sales of Business Property. Do not complete columns (b) through (f) on line 2 of Form 4797. Instead, write "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 amount of section 1231 gain (loss) from each activity.

**Caution.** If you have any foreign source net section 1231 gain (loss), see the instructions for box 16, later.

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

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

**Tip.** A partner that is a corporation subject to alternative minimum tax must notify the partnership of its status.

**Code A.** This amount is your share of the partnership's post-1986 depreciation adjustment. If you are an individual partner, report this amount on line 18 of Form 6251.

**Code B.** This amount is your share of the partnership's adjusted gain or loss. If you are an individual partner, report this amount on line 17 of Form 6251.

**Code C.** This amount is your share of the partnership's depletion adjustment. If you are an individual partner, report this amount on line 9 of Form 6251.

**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 line 26 of Form 6251.

**Code F. Other AMT items.** Enter the information on the statement attached by the partnership on the applicable lines of Form 6251, Form 4626, or Schedule I (Form 1041).

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

**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 fair market value (FMV) on the date of distribution (minus your share of the partnership's gain on the securities distributed to you). If the amount shown as code A exceeds the adjusted basis of your partnership interest immediately before the distribution, the excess is treated as gain from the sale or exchange of your partnership interest. Generally, this gain is treated as gain from the sale of a capital asset and should be reported on Form 8949 and the Schedule D for your return. However, if you receive cash or property in exchange for any part of a partnership interest, the amount of the distribution attributable to your share of the partnership's unrealized receivable or inventory items results in ordinary income (see Regulations 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.

## Box 20. Other Information

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

**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.

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

**Code Y. Net Investment Income.**

The partnership may use this code Y to report information you may need to determine your net investment income tax under section 1411, including information regarding income from controlled foreign corporations (CFCs) and passive foreign investment companies (PFICs) the stock of which is owned by

the partnership. Any information that isn't provided elsewhere on Schedule K-1 (or an attachment to Schedule K-1) is provided using code Y. For CFCs and PFICs that you treat as qualified electing funds (QEFs), the information that is relevant to you will depend on whether you, the partnership, or a lower-tier entity has made an election under Regulations section 1.1411-10(g) with respect to the CFC or QEF. For example, if the partnership made an election under Regulations section 1.1411-10(g) for a CFC the stock of which is owned by the partnership, and the relevant income and deduction items derived from that CFC are reported elsewhere on the Schedule K-1, then you will not need the information provided in code Y to complete your Form 8960.

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

**Code Z. Other Information.** The partnership will report:

Line 12. 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.