

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

instructions for partnerships required to report capital accounts to partners on ...

Oct. 23, 2020

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

Termination of the Partnership	4	Schedule M-1. Reconciliation of Income (Loss) per Books With Income (Loss) per Return	53	unrecognized section 704(c) gain or (loss), at the beginning and the end of the tax year.
Electronic Filing	4	Schedule M-2. Analysis of Partners' Capital Accounts	53	• Box 11—Code F will no longer be used for section 951A income. Instead, it will now be used for any net positive income effect from section 743(b) adjustments.
When To File	4	Codes for Principal Business Activity and Principal Product or Service	55	• Box 13—New code V has been added for any net negative income effect from section 743(b) adjustments.
Where To File	5	Index	58	• Box 20—Codes Z through AD that were previously used to report section 199A information have been changed. Only code Z will be used to report section 199A information.
Who Must Sign	5	<b>Future Developments</b>		• Box 20—Code AA is used for the net income/loss effect for all section 704(c) adjustments.
Penalties	5	For the latest information about developments related to Form 1065 and its instructions, such as legislation enacted after they were published, go to <a href="https://www.irs.gov/Form1065">IRS.gov/Form1065</a> .		• Box 20—Code AB is used for section 751 gain or loss from the sale of a partnership interest.
Accounting Methods	6	<b>What's New</b>		• Box 20—Code AC is used for any deemed gain or loss from section 1(h)(5) collectibles from the sale of a partnership interest.
Accounting Periods	7	<b>Schedule B</b>		• Box 20—Code AD is used for any deemed gain under section 1250 from the sale of a partnership interest.
Rounding Off to Whole Dollars	7	• New Question 27 has been added to Schedule B to enter the number of foreign partners that transferred all or part of their interests or received a distribution subject to section 864(c)(8).		• Box 20—Code AH, Other, includes net section 743(b) adjustment for partners with basis adjustments.
Recordkeeping	7	• New Question 28 regarding disclosures for disguised sales has been added to Schedule B.		• Lines 21 and 22—These new lines have checkboxes to indicate that there are attachments to the Schedule K-1 related to the partnership having more than one activity for section 465 at-risk purposes, or more than one activity for section 469 passive activity purposes, or both.
Amended Return	7	<b>Schedule K</b>		
Assembling the Return	10	• Schedule K and Schedule K-1, line 4, Guaranteed payments, now has three lines: a. Guaranteed payments for services, b. Guaranteed payments for capital, and c. Total.		
Entity Classification Election	10	• Schedule K, lines 16(d) and (k), are reserved for future use because section 951A categories are no longer reported on Schedules K and K-1.		
Elections Made by the Partnership	10	<b>Schedule K-1</b>		
Elections Made by Each Partner	11	• Item E—A parenthetical has been added to caution against using the TIN of a disregarded entity.		
Partner's Dealings With Partnership	11	• Item H—Has been revised to request the name and TIN of a disregarded entity, if applicable.		
Contributions to the Partnership	11			
Dispositions of Contributed Property	12			
Recognition of Precontribution Gain on Certain Partnership Distributions	12			
Unrealized Receivables and Inventory Items	12			
At-Risk Limitations	12			
Passive Activity Limitations	12			
Extraterritorial Income Exclusion	17			
Specific Instructions	17			
Income	18			
Deductions	19			
Schedule B. Other Information	24			
Schedules K and K-1. Partners' Distributive Share Items	27			
Specific Instructions (Schedule K-1 Only)	28			
Part I. Information About the Partnership	29			
Part II. Information About the Partner	29			

The IRS has released an [early draft of the instructions to Form 1065, U.S. Return of Partnership Income](#), for tax year 2020 (filing season 2021) that include revised instructions for partnerships required to report capital accounts to partners on Schedule K-1 (Form 1065).

The revised instructions are part of a larger effort by the agency to improve the

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

According to IRS data, most partnerships already use the tax basis method although partnerships previously could report capital accounts determined under multiple methods. Partnerships that did not prepare Schedules K-1 under the tax capital method for 2019 or otherwise maintain tax basis capital accounts in their books and records (for example, for purposes of reporting negative capital accounts) may determine each partner's beginning tax basis capital account balance for 2020 using one of the following methods: the Modified Outside Basis Method, the Modified Previously Taxed Capital Method, or the Section 704(b) Method, as described in the instructions, including special rules for publicly traded partnerships.

In anticipation of requesting more consistent and useful tax information from partnerships, the Department of the Treasury and the IRS released [Notice 2020-43](#) seeking public comment on other possible methods to report capital accounts to partners. The IRS and the Treasury Department received numerous comments from taxpayers requesting that the tax basis method approach be retained. At the same time, the IRS did not receive practical alternative approaches to partner capital account reporting. Reporting using only one method assists the IRS in assessing compliance risk, and identifying potential noncompliance, while ensuring that compliant taxpayers' returns are less likely to be examined.

To promote compliance with using the tax basis method described in the revised instructions, the Treasury Department and the IRS intend to issue a notice providing additional penalty relief for the transition in tax year 2020. The notice will provide that solely for tax year 2020 (for partnership returns due in 2021), the IRS will not assess a partnership a penalty for any errors in reporting its partners' beginning capital account balances on Schedules K-1 if the partnership takes ordinary and prudent business care in following the form instructions to calculate and report the beginning capital account balances. This penalty relief will be in addition to the

reasonable cause exception to penalties for any incorrect reporting of a beginning

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

*With Respect to Certain Foreign Partnerships.*

CPA Practice Advisor is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors.

© 2024 Firmworks, LLC. All rights reserved