

## Partnership Instructions for Schedule K-1 (Form GR-1065)

### General Information

Generally, a partnership is required to prepare and give Schedule K-1 (Form GR-1065) to each person who was a partner in the partnership at any time during the year. Schedule K-1 (Form GR-1065) must be provided to each partner on or before the day on which the partnership return is required to be filed.

Partnerships electing to pay tax that have a partnership partner (downstream partnership) are required to provide Schedule K-1 (Form GR-1065) to each partner of the downstream partnership (or chain of such partnerships) if the tax for the downstream partnership is calculated based on the downstream partnership's partner's classification.

### How to Complete Schedule K-1 (Form GR-1065)

If the return is for a fiscal year or a short tax year fill in the fiscal tax year spaces at the top of each Schedule K-1. If this is a final or an amended K-1, mark (X) the appropriate box at the top of each Schedule K-1.

On each Schedule K-1, enter the information about the partnership and the partner in Parts I and II (items A through M). In Part III, enter: in column A the amounts from the partners federal Schedule K-1 (Form 1065); in column B the amounts of exclusions or adjustments to the amounts in column A; and in Column C the partner's city taxable share of each item of income, deduction or information.

### Part I. Information About the Partnership

On each Schedule K-1, enter (A) the identifying number of the partnership, and its (B) name and address. Also enter the (C) partnership's business allocation percentage (Form GR-1065, Schedule D, line 5 or special formula line d).

### Part II. Information About the Partner

On each Schedule K-1 complete the information for the partner for items E through I and J through M as it was completed on the partner's federal Schedule K-1 (Form 1065). For item I2, if the partner code for item I1 is a code that represents an individual, estate or trust, enter in item I2 the following code for the partner: R for resident partner, N for a nonresident partner, PR for the resident portion and PN for the nonresident portion of the year for a part-year resident partner. See Appendix B, Partner Classification Table, for additional information. For Item I3, mark (X) the box if the partner is a retirement plan. For item N enter the partner's partner number as reported on Form GR-1065, Schedule 1. When a partner is a part-year resident, two Schedule K1's (Form GR-1065) are to be issued, one for the resident portion of the year and one for the nonresident portion of the year as two lines are required for reporting the partner's income.

If the partnership elects to pay tax and the partner is a partnership, mark (X) the item D box and enter the partnership partner's identification number. Complete the other items for this partnership partner. Parts III and Part IV for this downstream partnership is a compilation of their partner's Schedules K-1. Also, complete a Schedule K-1 (Form GR-1065) for each partner of the downstream partnership completing item D for the downstream partnership and completing Part II, Part III and Part IV for each downstream partnership partner.

### Part III. Partner's share of Current Year income, Exclusions/Adjustments and City Income.

This part of the Schedule K-1 (Form GR-1065) is divided into three columns: Column A, Federal Partnership Return Data; column B, Exclusions and Adjustments; and column C, City Taxable Income.

#### Column A, Federal Partnership Return Data.

Column A, line 1, lines 2 through 13 and line 20 are used for reporting income, deductions and other information as reported on the federal Schedule K-1 (Form 1065) for the partner. In each line of column A enter the data as reported in the federal Schedule K-1 except for lines 1a, 11, 13 and 20 follow the instructions below.

**Line 1a. Ordinary income from other partnerships.** This line on the city Schedule K-1 (GR-1065) is used to properly report ordinary business income from other partnerships, estates and trusts. Column A of this line is blank or zero (0) as this line is not on the federal Schedule K-1.

**Codes for lines 11, 13 and 20.** In boxes 11, 13 and 20, identify each item by entering the federal code in the column to the left of Column A.

**Line 13. Other deductions.** In box 13 report only the federal coded items that affect city income of the partner. There are only a few (line 13) other deductions that affect a partner's city income. Deductions that are claimed on the partner's federal return Form 1040 as adjustments to income or itemized deductions are not reported on line 13. If you have a question about reporting a line 13 item, please contact the city for an answer. An example of a line 13 is item I, deductions – royalty income.

**Line 20. Other information.** In box 20 report only the federal coded items that affect city income. There are few items of (line 20) other information that affect the partner's city income. If you have a question about reporting a line 20 item, please contact the city for an answer. An example of a line 20 item is M, recapture of section 179 deduction.

### Column B, Exclusions and Adjustments

Complete column C, City Taxable Income, lines 1 through 13, before completing column B. Once the column C amount for a line is determined and entered, the column B amount for the line is calculated by subtracting the amount in column C from the amount in column A. Enter in the calculated amount in Column B for the line. If a line in any column is blank, it is to be read as a zero (0).

### Column C, City Taxable Income

The amount of city taxable income for each line for each partner is calculated in schedules attached to the partnership return enter the data for each line of Column C as determined in the schedule noted for the line.

**Line 1. Ordinary business income.** Enter the amount of the partner's ordinary business income as reported on Form GR-1065, Sch. C, column 3.

**Line 1a. Ordinary income from other partnerships.** Enter the amount of the partner's taxable share of ordinary income from other partnerships as reported on Form GR-1065, Schedule B11, column 10.

**Line 2. Net rental real estate income (loss).** Enter the amount of the partner's share of net rental real estate income (loss) as reported on Form GR-1065, Schedule B11, column 6.

**Line 3. Other rental income (loss).** Enter the amount of the partner's taxable share of other rental income (loss) as reported on Form GR-1065, Schedule B11, column 7.

**Line 4. Guaranteed payments to partners.** Enter the amount of the partner's taxable guaranteed payments as reported on Form GR-1065, Schedule C, column 4.

**Line 5. Interest income.** Enter the amount of the partner's taxable share of interest income as reported on Form GR-1065, Schedule B11, column 1.

**Line 6. Dividend income.** Enter the amount of the partner's taxable share of dividend income as reported on Form GR-1065, Sch. B11, column 2.

**Line 7. Royalties.** Enter the amount of the partner's taxable share of royalties as reported on Form GR-1065, Schedule B11, column 8.

**Line 8. Net short term capital gain (loss).** Enter the amount of the partner's taxable share of net short term capital gain (loss) as reported on Form GR-1065, Schedule B11, column 3.

**Line 9. Net long term capital gain (loss).** Enter the amount of the partner's taxable share of net long term capital gain (loss) as reported on Form GR-1065, Schedule B11, column 4.

**Line 10. Net section 1231 gain (loss).** Enter the amount of the partner's taxable share of net section 1231 gain (loss) as reported on Form GR-1065, Schedule B11, column 5.

**Line 11. Other income.** Enter the amount of the partner's taxable share of other income as reported on Form GR-1065, Schedule B11, column 9.

**Line 12. Section 179 deduction.** Enter a zero (0) or leave blank as this deduction is already included in the amount reported in column C, line 1.

**Line 13. Other deductions.** The amount to enter on this line must be calculated based upon the type of other deduction and the tax-ability of the city income related to the deduction. Example: Item I, deductions – royalty income, would be deductible at the same percentage the related royalty income is taxable by the city. There are very few other deduction items that relate to city income

**Line 20. Other information.** The amount to enter on this line must be calculated based upon whether the other information is city income or a deduction allowed to determine city income. Example: Item M, recapture of section 179 deduction, would be taxable at the same percentage the related property was taxable by the city. There are very few other information items that relate to city income.

### Part IV. Partner's City Deductions, Credits and Tax Paid

Part IV is divided into three sections. Refer to the following instructions to complete this section.

**D – Partner's deductions for items paid by the partnership.** Report the partner's share of deductions allowed under the city's income tax ordinance that were paid by the partnership. These deductions are the partner's: IRA deduction; Self-employed, SEP, SIMPLE and qualified plans deduction; Renaissance Zone deduction; etc.

**C – Credit for tax paid by partnership to another city.** Report the tax paid to other cities by partnership on behalf of partner who is a resident of the city named at the top of the Schedule K-1.

**T – Income tax paid by the partnership.** Report the actual tax paid by partnership on behalf of partner to the city named at the top of the Schedule K-1. This is the amount reported on Form GR-1065, Schedule 2, column 10, for the partner.

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

### GENERAL INFORMATION

A partner with income from a partnership is required to file a city income tax return unless: (1) the partnership elects to pay the city income tax on behalf of all partners; and (2) the partner has no other income taxable under the city's income tax ordinance. This applies to all types of partners, individuals, corporations and partnerships.

### TAX PAID BY THE PARTNERSHIP ON BEHALF OF PARTNER

If the partnership elects to pay tax on behalf of its partners, a partner may claim the share of tax paid, Schedule K-1 (Form GR-1065), Part IV, item T, as a tax payment on the partner's city income tax return.

### CORPORATION PARTNERS

A corporation partner may or may not have nontaxable partnership income depending on where the business activity of the partnership takes place and the type of income flowing through from the partnership. A corporation partner should follow the instructions for filing the city's corporation income tax return, reporting and paying the city's income tax on the taxable partnership income.

### PARTNERSHIP PARTNERS

A partnership partner may or may not have nontaxable partnership income depending on where the business activity of the partnership takes place and the type of income flowing through from the partnership. A partnership partner should follow the instructions for filing the city's partnership income tax return.

### INDIVIDUAL PARTNERS (RESIDENTS AND NONRESIDENTS)

A resident, nonresident or part-year resident partner filing form GR-1040 should follow the following instructions when preparing their city return. Form GR-1040, lines 1 through 16. The form uses a three column format for reporting income: column A is used to report federal income; column B is used to report exclusions and adjustments to income; and column C is used to report the city's taxable income.

A partner should first complete his/her federal return. After completing the federal return the partner should: first enter the income reported on Form 1040, lines 1 through 22, on Form GR-1040 in column A; the partner should then compute the exclusions and adjustments allowed for each income line of the city's return; then the partner should calculate the city's taxable income (column C) for each income line by subtracting the exclusions and adjustments (column B) amount from the federal income (column A); and last the partner should prepare the remainder of the return.

Generally, a resident partner will have no exclusions and adjustments to partnership income.

A nonresident partner may or may not have exclusions and adjustments depending on where the business activity of the partnership takes place and the type of income flowing through from the partnership.

A partner who is a part-year resident must follow the resident reporting instructions for the portion of the partnership income earned while a resident, and follow the nonresident instructions for the portion of the partnership income earned while a nonresident. A separate Schedule K-1 (Form GR-1065) should have been received from the partnership for income in each residence status.

### Computing Exclusions and Adjustments

Exclusions and adjustments to an individual partner's income are to be computed and reported separately for each income line of the return form. For example, the ordinary income exclusions and adjustments reported to the partner on Schedule K-1 (Form GR-1065), line 1, column B, are included in the exclusions and adjustments reported on the partner's Form GR-1040, line 11, column B.

Exclusions and adjustments to partnership income reported on Schedule K-1 (Form GR-1065), column B, are reported on the exclusion and adjustment schedules for each type of income for Form GR-1040, column B, lines 2, 3, 7, 8 and 11 as follows:

| Schedule K-1 (Form GR-1065) | Exclusion and Adjustment Schedule  | Form GR-1040    |
|-----------------------------|--|-----------------|
| Line 5, column B            | Excludible Interest Income   | Line 2, col. B  |
| Line 6, column B            | Excludible Dividend Income   | Line 3, col. B  |
| Line 8, column B            | Exclusions and Adjustments to Capital Gain or (Loss)   | Line 7, col. B  |
| Line 9, column B            | Exclusions and Adjustments to Capital Gain or (Loss)   | Line 7, col. B  |
| Line 10, column B           | Exclusions and Adjustments to Other Gains or (Losses)  | Line 8, col. B  |
| Line 1, column B            | Exclusions and Adjustments to Income from Rental Real, Royalties, Partnerships, S Corporations, Trusts, Etc. | Line 11, col. B |
| Line 1a, column B           |  | Line 11, col. B |
| Line 2, column B            |  | Line 11, col. B |
| Line 3, column B            |  | Line 11, col. B |
| Line 4, column B            |  | Line 11, col. B |
| Line 7, column B            |  | Line 11, col. B |
| Line 11, column B           |  | Line 11, col. B |
| Line 12, column B           |  | Line 11, col. B |
| Line 13, column B           |  | Line 11, col. B |
| Line 20, column B           |  | Line 11, col. B |

After completing the exclusions and adjustments schedules the partner reports the exclusions and adjustments on Form GR-1040, column B, on the line for the type of income excluded or adjusted.

### Differences in Reporting Between Federal Schedule K-1 (Form 1065) and city Schedule K-1 (Form GR-1065)

There are differences in reporting certain partnership income items between federal Schedule K-1 (1065) and the city Schedule K-1 (GR-1065). Explanations for these items follow.

**Line 1.** Ordinary business income (loss) from other partnerships, estates and trusts included in the partner's Schedule K-1 (1065), line 1, is not included in partner's city Schedule K-1 (GR-1065), line 1. Line 1a was added to the city Schedule K-1 (GR-1065) to properly report this income. The adjustment amount to report in column B is taxable income reported in column C multiplied by a negative one (-1). The reason is that the other partnership's business allocation percentage is used to allocate this income for nonresident and corporation partners.

**Line 12.** Section 179 expenses reported on the partner's Schedule K-1 (1065), line 12, are included in amount reported on Schedule K-1 (GR-1040), line 1. Therefore an adjustment must be made to remove reporting of Section 179 expenses on Schedule K-1 (1065), line 12.

**Line 13.** Other deductions reported on Schedule K-1 (GR-1065), line 13, column A, are deductions used to determine income included on an income line of the partner's Form 1040 (lines 7 to 21). An example is deductions from royal income, line 13, code I.

**Line 20.** Other information reported on Schedule K-1 (GR-1065), column A, line 20, is information used by the partner to determine income included on an income line of the partner's Form 1040 (lines 7 to 21). An example of is recapture of a section 179 deduction.

### Deductions Allowed

Deductions allowed on the city return of a partner are reported by the partnership on Schedule K-1 (Form GR-1065), Part IV. These deductions may be claimed on the partner's city return, Form GR-1040, Page 2, Deductions Schedule, lines 1 through 6.

### Credit for Tax Paid by Partnership to another City

If the partnership elects to pay tax on behalf of its partners to another city, an individual resident partner may claim a tax credit for tax paid to the other city. The partner's share of the amount of tax paid to the other city is reported on Schedule K-1 (Form GR-1065), Part IV, item T.