



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

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

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

General Instructions

Purpose of Schedule K-1

The corporation uses Schedule K-1 to report your share of the corporation's income (reduced by any tax the corporation paid on the income), deductions, credits, etc. Keep it for your records. Do not file it with your tax return. The corporation has filed a copy with the IRS.

You are liable for tax on your share of the corporation's 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.

Your share of S corporation income is not self-employment income and it is not subject to self-employment tax.

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 shareholder's responsibility to consider and apply any applicable limitations. See *Limitations on Losses, Deductions, and Credits* beginning on this page for more information.

Schedule K-1 does not show actual dividend distributions the corporation made to you. The corporation must report such amounts totaling \$10 or more for the calendar year on Form 1099-DIV, Dividends and Distributions.

Inconsistent Treatment of Items

Generally, you must report corporate items shown on your Schedule K-1 (and any attached schedules) the same way that the corporation treated the items on its return.

If the treatment on your original or amended return is inconsistent with the corporation's treatment, or if the corporation has not filed a return, 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 corporate return has not been filed).

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

Errors

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

International Boycotts

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

If the corporation cooperated with an international boycott, it must give you a copy of its Form 5713. You must file your own Form 5713 to report the corporation's activities and any other boycott operations that you may have. You may lose certain tax

benefits if the corporation participated in, or cooperated with, an international boycott. See Form 5713 and its instructions for details.

Elections

Generally, the corporation 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 corporation. 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 12.
- Section 263A(d) (preproductive expenses). See the instructions for code M in box 12.
- Section 617 (deduction and recapture of certain mining exploration expenditures).
- Section 901 (foreign tax credit).

Additional Information

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

To get forms and publications, see the instructions for your tax return or visit the IRS website at www.irs.gov.

Limitations on Losses, Deductions, and Credits

There are three potential limitations on corporate losses that you can deduct on your return. These limitations and the order in which you must apply them are as follows: the basis rules, the at-risk limitations, and the passive activity limitations. Each of these limitations is discussed on the following pages.

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

Basis Rules

Generally, the deduction for your share of aggregate losses and deductions reported on Schedule K-1 is limited to the basis of your stock (determined with regard to distributions received during the tax year) and loans from you to the corporation. For details and exceptions, see section 1366(d). The basis of your stock is generally figured at the end of the corporation'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.

You are responsible for keeping the information needed to figure the basis of your stock in the corporation. Schedule K-1 provides information to help you figure your stock basis at the end of each corporate tax year. The basis of your stock (generally, its cost) is adjusted as follows and, except as noted, in the order listed. In addition, basis may be adjusted under other provisions of the Internal Revenue Code. You can use the *Worksheet for Figuring a Shareholder's Stock Basis* to figure your aggregate stock basis.

1. Basis is increased by (a) all income (including tax-exempt income) reported on Schedule K-1 and (b) the excess of the deduction for depletion (other than oil and gas depletion) over the basis of the property subject to depletion.



You must report the taxable income on your return (if you are required to file one) for it to increase your basis.



Basis is not increased by income from discharge of your indebtedness in the S corporation (nor by any amount included in income with respect to clean renewable energy, gulf tax credit, Midwestern tax credit, or (for bonds issued before October 4, 2008) qualified zone academy bonds).

2. Basis is decreased by property distributions (including cash) made by the corporation (excluding dividend distributions reported on Form 1099-DIV and distributions in excess of basis) reported on Schedule K-1, box 16, code D.

3. Basis is decreased by (a) nondeductible expenses and (b) the depletion deduction for any oil and gas property held by the corporation, but only to the extent your share of the property's adjusted basis exceeds that deduction.

4. Basis is decreased by all deductible losses and deductions reported on Schedule K-1 adjusted, if the corporation made a charitable contribution of property, by subtracting the property's fair market value and adding the property's adjusted basis.

You may elect to decrease your basis under (4) prior to decreasing your basis under (3). If you make this election, any amount described under

(3) that exceeds the basis of your stock and debt owed to you by the corporation is treated as an amount described under (3) for the following tax year.

To make the election, attach a statement to your timely filed original or amended return that states you agree to the carryover rule of Regulations section 1.1367-1(g) and the name of the S corporation to which the rule applies. Once made, the election applies to the year for which it is made and all future tax years for that S corporation, unless the IRS agrees to revoke your election.

The basis of each share of stock is increased or decreased (but not below zero) based on its pro rata

Worksheet for Figuring a Shareholder's Stock Basis

Keep for Your Records

1. Your stock basis at the beginning of the year	1. _____
Increases:	
2. Money and your adjusted basis in property contributed to the corporation	2. _____
3. Your share of the corporation's income (including tax-exempt income) reduced by any amount included in income with respect to clean renewable energy, gulf tax credit, Midwestern tax credit, or (for bonds issued before October 4, 2008) qualified zone academy bonds	3. _____
4. Other increases to basis, including 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	4. _____
Decreases:	
5. Distributions of money and the fair market value of property (excluding dividend distributions reportable on Form 1099-DIV and distributions in excess of basis)	5. (_____)
6. Enter: (a) your share of the corporation's nondeductible expenses and the depletion deduction for any oil and gas property held by the corporation (but only to the extent your share of the property's adjusted basis exceeds the depletion deduction) or (b) if the election under Regulations section 1.1367-1(g) applies, your share of the corporation's deductions and losses (include your entire share of the section 179 expense deduction even if your allowable section 179 expense deduction is smaller) adjusted, if the corporation made a charitable contribution of property, by subtracting your share of the fair market value of the contributed property and adding your share of the property's adjusted basis	6. (_____)
7. If the election under Regulations section 1.1367-1(g) applies, enter the amount from 6(a) above. Otherwise enter the amount from 6(b)	7. (_____)
8. Enter the smaller of (a) the excess of the amount you are owed for loans you made to the corporation over your basis in those loans or (b) the sum of lines 1 through 7. This amount increases your loan basis	8. (_____)
9. Your stock basis in the corporation at end of year. Combine lines 1 through 8	9. _____

share of the above adjustments. If the total decreases in basis attributable to a share exceed that share's basis, the excess reduces (but not below zero) the remaining bases of all other shares of stock in proportion to the remaining basis of each of those shares.

Basis of loans. The basis of your loans to the corporation is generally the balance the corporation owes you, adjusted for any reductions and restorations of loan basis (see the instructions for box 16, code E). Any amounts described in (3) and (4) on page 2 not used to offset amounts in (1) on page 2, or reduce your stock basis, are used to reduce your loan basis (to the extent of such basis prior to such reduction).



When determining your basis in loans to the corporation, remember that:

- Distributions do not reduce loan basis, and
- Loans that a shareholder guarantees or co-signs are not part of a shareholder's loan basis.

See section 1367 and its regulations for more details.

Worksheet instructions. For lines 6 and 7, do not enter more than the aggregate sum of the preceding lines. Any excess of the amounts that would otherwise be entered on lines 6 and 7 without regard to this limit over the amounts actually entered on those lines is a reduction to your basis, if any, in loans you made to the corporation (to the extent of such basis). Any portion of the excess not used to reduce your basis in stock and loans is not deductible in the current year and is carried over to next year and subject to that year's basis limit. See the preceding instructions for more details.

At-Risk Limitations

Generally, you will have to complete Form 6198, At-Risk Limitations, to figure your allowable loss, if you have:

- A loss or other deduction from any activity carried on by the corporation as a trade or business or for the production of income, and
- Amounts in the activity for which you are not at risk.

The at-risk rules generally limit the amount of loss and other deductions that you can claim to the amount you could actually lose (your economic loss) 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 stock before 1987,

the at-risk rules do not apply to losses from an activity of holding real property placed in service before 1987 by the corporation. The activity of holding mineral property does not qualify for this exception. The corporation should identify on an attachment 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.

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

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

You should get a separate statement of income, expenses, etc., for each activity from the corporation.

Passive Activity Limitations

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

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

Generally, passive activities include:

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

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:

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 and
 - b. You performed more than 750 hours of services in real property trades or businesses in which you 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).

If you are married filing jointly, either you or your spouse must separately meet both 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. The rental of a dwelling unit any shareholder 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.

4. Activities of trading personal property for the account of owners of interests in the activities.

If 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. See the

instructions for these forms for details.

If the corporation 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, etc.) 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 corporation and (b) if you were a real estate professional (defined on page 3), in each rental real estate activity held through the corporation. All determinations of material participation are based on your participation during the corporation's tax year.

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

Individuals. If you are an individual, you materially participated in an activity only if one or more of the following apply.

1. You participated in the activity for more than 500 hours during the tax year.
2. Your participation in the activity for the tax year constituted substantially all the participation in the activity of all individuals (including individuals who are not owners of interests in the activity).
3. You participated in the activity for more than 100 hours during the tax year, and your participation in the activity for the tax year was not less than the participation in the activity of any other individual (including individuals who were not owners of interests in the activity) for the tax year.
4. The activity was a significant participation activity for the tax year, and you participated in all significant participation activities (including activities outside the corporation) during the year for more than 500 hours. A significant participation activity is any trade or business activity in which you participated for more than 100 hours during the year and in which you did not 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 is not 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.

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

1. The work is not 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 nonmanagerial 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 corporation, or
- You were a real estate professional (defined on page 3) in a rental real estate activity of the corporation.

If you determine that you did not materially participate in a trade or business activity of the corporation, or

if you have income (loss), deductions, or credits from a rental activity of the corporation (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 Form 8582-CR, to see if your deductions, losses, and credits are limited under the passive activity rules.

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 is not available if you were married, file a separate return for the year, and did not live apart from your spouse at all times during the year.

Only individuals, qualifying estates, and revocable trusts that made a section 645 election can actively participate in a rental real estate activity. Estates (other than qualifying estates) and trusts (other than qualifying revocable trusts that made a section 645 election) cannot actively participate.

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

Active participation is a less stringent requirement than material participation. You may be treated as actively participating if you participated, for example, in making management decisions or in 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:

- Any passive activity loss.
- Any rental real estate loss allowed under section 469(c)(7) to real estate professionals (defined on page 3).
- 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 deduction for one-half 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 is not subject to the active participation rules or modified adjusted gross income limits discussed above. See the instructions for box 12, code N 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 corporation will identify the activity and all amounts relating to it on Schedule K-1 or on an attachment.

If you have net income subject to recharacterization 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.

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

1. The rental of a dwelling unit any shareholder 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.
2. Trading personal property for the account of owners of interests in the activity.

Self-charged interest. The corporation will report any "self-charged" interest income or expense that resulted from loans between you and the corporation (or between the corporation and another S corporation or partnership if both entities have the same owners with the same proportional interest in each entity). If there was more than one activity, the corporation 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 interest in the S corporation if the corporation 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 III. Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items

The amounts shown in boxes 1 through 17 reflect your share of income, loss, deductions, credits, etc., from corporate business or rental activities without reference to limitations on losses, credits, or other items that may have to be adjusted because of:

1. The adjusted basis of your stock and debt in the corporation,
 2. The at-risk limitations,
 3. The passive activity limitations,
- or
4. Any other limitations that must be taken into account at the shareholder level in figuring taxable income (for example, the section 179 expense limitation).

For information on these provisions, see *Limitations on Losses, Deductions, and Credits* beginning on page 1.

If you are an individual, and the above limitations do not apply to the amounts shown on your Schedule K-1, take the amounts shown and report them on the lines of your tax return as indicated in the summarized reporting information shown on page 2 of the Schedule K-1. If any of the above limitations apply, adjust the amounts on Schedule K-1 before you report them on your return.

When applicable, the passive activity limitations on losses are applied after the limitations on losses for a shareholder's basis in stock and debt and the shareholder's at-risk amount.

The line numbers in the summarized reporting information on page 2 of Schedule K-1 are references to forms in use for calendar year 2008. If you file your tax return on a calendar year basis, but the corporation files a return for a fiscal year, report the amounts on your tax return for the year in which the corporation's fiscal year ends. For example, if the corporation's tax year ends in February 2009, report the amounts on your 2009 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 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 your return. Instead, report the amounts on your return on a year-by-year basis.



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 10 and boxes 12 through 17, the corporation 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 corporation 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 corporation 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 corporation. Generally, where you report this amount on Form 1040 depends on whether the amount is from an activity that is a passive activity to you. If you are an individual shareholder filing a 2008 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 corporation 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 corporate 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 corporate trade or business activities in which you did not materially participate, as follows.

- a. If income is reported in box 1, report the income on Schedule E (Form 1040), line 28, column (g).

- 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).

Box 2. Net Rental Real Estate Income (Loss)

Generally, the income (loss) reported in box 2 is a passive activity amount for all shareholders. However, the income (loss) in box 2 is not from a passive activity if you were a real estate professional (defined on page 3) and you materially participated in the activity. If the corporation had more than one rental real estate activity, it will attach a statement identifying the income or loss from each activity.

If you are filing a 2008 Form 1040, use the following instructions to determine where to report a box 2 amount.

1. If you have a loss from a passive activity in box 2 and you meet all the following conditions, report the loss on Schedule E (Form 1040), line 28, column (f).
 - a. You actively participated in the corporate rental real estate activities. See *Special allowance for a rental real estate activity* on page 4.
 - b. Rental real estate activities with active participation were your only passive activities.
 - c. You have no prior year unallowed losses from these activities.
 - d. Your total loss from the rental real estate activities was not more than \$25,000 (not more than \$12,500 if married filing separately and you lived apart from your spouse all year).
 - e. If you are a married person filing separately, you lived apart from your spouse all year.
 - f. You have no current or prior year unallowed credits from a passive activity.
 - g. Your modified adjusted gross income was not more than \$100,000 (not more than \$50,000 if married filing separately and you lived apart from your spouse all year).
2. If you have a loss from a passive activity in box 2 and you do not meet all the conditions in 1 above, follow the Instructions for Form 8582 to figure how much of the loss you can report on Schedule E (Form 1040), line 28, column (f).
3. If you were a real estate professional and you materially

participated in the activity, report box 2 income (loss) on Schedule E (Form 1040), line 28, column (h) or (j).

4. If you have income from a passive activity in box 2, report the income on Schedule E (Form 1040), line 28, column (g).

Box 3. Other Net Rental Income (Loss)

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

1. If box 3 is a loss, follow the Instructions for Form 8582 to figure how much of the loss can be reported on Schedule E (Form 1040), line 28, column (f).
2. If income is reported in box 3, report the income on Schedule E (Form 1040), line 28, column (g).

Portfolio Income

Portfolio income or loss (shown in boxes 4 through 8b and in box 10, code A) is not 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 4. Interest Income

Report interest income on line 8a of Form 1040.

Box 5a. Ordinary Dividends

Report ordinary dividends on line 9a of Form 1040.

Box 5b. Qualified Dividends

Report any qualified dividends on line 9b of Form 1040.

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

Box 6. Royalties

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

Box 7. Net Short-Term Capital Gain (Loss)

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

Box 8a. Net Long-Term Capital Gain (Loss)

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

Box 8b. Collectibles (28%) Gain (Loss)

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

Box 8c. 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 corporation'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 corporation reports only unrecaptured section 1250 gain from the sale or exchange of its business assets, it will enter a dollar amount in box 8c. 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.

Box 9. Net Section 1231 Gain (Loss)

The amount in box 9 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 on page 3) 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 Form 4797, line 2, column (g). Do not complete columns (b) through (f) on line 2 of Form 4797. Instead, enter "From Schedule K-1 (Form 1120S)" 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. If the corporation had net section 1231 gain (loss) from more than one activity, it will attach a statement that will identify the section 1231 gain (loss) from each activity.

Box 10. Other Income (Loss)

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

If the corporation held a residual interest in a real estate mortgage investment conduit (REMIC), it will report on the statement your share of REMIC taxable income (net loss) that you report on Schedule E (Form 1040), line 38, column (d). The statement will also report your share of any "excess inclusion" that you report on Schedule E (Form 1040), line 38, column (c), and your share of section 212 expenses that you report on Schedule E (Form 1040), line 38, column (e). If you itemize your deductions on Schedule A (Form 1040), you may also deduct these section 212 expenses as a miscellaneous deduction subject to the 2% limit on Schedule A (Form 1040), line 23.

Code B. Involuntary conversions. This is your net loss from involuntary conversions due to casualty or theft. The corporation will give you a schedule that shows the amounts to be reported on Form 4684, *Casualties and Thefts*, line 40, columns (b)(i), (b)(ii), and (c).

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

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

Code D. Mining exploration costs recapture. The corporation will give you a schedule that shows the information needed to recapture certain mining exploration costs

(section 617). See Pub. 535 for details.

Code E. Other income (loss).

Amounts with code E are other items of income, gain, or loss not included in boxes 1 through 9 or in box 10 using codes A through D. The corporation should give you a description and the amount of your share for each of these items.

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

Code E items may include the following.

- Income from recoveries of tax benefit items. A tax benefit item is an amount you deducted in a prior tax year that reduced your income tax. Report this amount on Form 1040, line 21, to the extent it reduced your tax.

- Gambling gains and losses.

1. If the corporation was not engaged in the trade or business of gambling, (a) report gambling winnings on Form 1040, line 21 and (b) deduct gambling losses to the extent of winnings on Schedule A (Form 1040), line 28.

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

- Gain (loss) from the disposition of an interest in oil, gas, geothermal, or other mineral properties. The corporation will attach a statement that provides a description of the property, your share of the amount realized from the disposition, your share of the corporation's adjusted basis in the property (for other than oil or gas properties), and your share of the total intangible drilling costs, development costs, and mining exploration costs (section 59(e) expenditures) passed through for the property. You must figure your gain or loss from the disposition by increasing your share of the adjusted basis by the intangible drilling costs, development costs, or mine exploration costs for the property that you capitalized (that is, costs that you did not elect to deduct under section 59(e)). Report a loss in Part I of Form 4797. Report a gain in Part III of Form 4797 in accordance with the instructions for line 28. See Regulations section 1.1254-4 for details.

- Net short-term capital gain (loss) and net long-term capital gain (loss) from Schedule D (Form 1120S) that

is not portfolio income. An example is gain or loss from the disposition of nondepreciable personal property used in a trade or business activity of the corporation. Report total net short-term gain (loss) on Schedule D (Form 1040), line 5. Report the total net long-term gain (loss) on Schedule D (Form 1040), line 12.

- Gain from the sale or exchange of qualified small business (QSB) stock (as defined in the Instructions for Schedule D (Form 1040)) eligible for the partial section 1202 exclusion. The corporation should also give you (a) the name of the corporation that issued the QSB stock, (b) your share of the corporation's adjusted basis and sales price of the QSB stock, and (c) the dates the QSB stock was bought and sold. The following additional limitations apply at the shareholder level.

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

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

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

- Gain eligible for section 1045 rollover (replacement stock purchased by the corporation). The corporation should also give you (a) the name of the corporation that issued the qualified small business (QSB) stock, (b) your share of the corporation's adjusted basis and sales price of the QSB stock, and (c) the dates the QSB stock was bought and sold. To qualify for the section 1045 rollover:

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

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

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

- Gain eligible for section 1045 rollover (replacement stock not

purchased by the corporation). The corporation should also give you (a) the name of the corporation that issued the qualified small business (QSB) stock, (b) your share of the corporation's adjusted basis and sales price of the QSB stock, and (c) the dates the QSB stock was bought and sold. To qualify for the section 1045 rollover:

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

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

3. You must purchase other QSB stock (as defined in the Instructions for Schedule D (Form 1040)) during the 60-day period that began on the date the QSB stock was sold by the corporation.

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

Deductions

Box 11. Section 179 Deduction

Use this amount, along with the total cost of section 179 property placed in service during the year from other sources, to complete Part I of Form 4562, Depreciation and Amortization. The corporation will report on an attached statement your share of the cost of any qualified enterprise zone, renewal community, section 179 Gulf Opportunity Zone, qualified section 179 Recovery Assistance, or qualified section 179 disaster assistance property it placed in service during the tax year. Report the amount from line 12 of Form 4562 allocable to a passive activity using the Instructions for Form 8582. If the amount is not a passive activity deduction, report it on Schedule E (Form 1040), line 28, column (i).

Box 12. Other Deductions

Contributions. Codes A through G. The corporation will give you a schedule that shows contributions subject to the 50%, 30%, and 20% adjusted gross income limitations.

If the corporation made a property contribution, it will report on an attached statement your share of both the fair market value and adjusted basis of the property. Use

these amounts to adjust your stock basis (see page 2). If the corporation made a qualified conservation contribution, it will report the fair market value of the underlying property before and after the donation, the type of legal interest contributed, and a description of the conservation purpose furthered by the donation. If the corporation made a contribution of real property located in a registered historic district, it will report any information you will need to take a deduction.

For more details, see Pub. 526, Charitable Contributions, and the instructions for Schedule A (Form 1040). If your contributions are subject to more than one of the AGI limitations, see Pub. 526.

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

Code A. Cash contributions (50%). Report this amount, subject to the 50% AGI limitation, on line 16 of Schedule A (Form 1040).

Code B. Cash contributions (30%). Report this amount, subject to the 30% AGI limitation, on line 16 of Schedule A (Form 1040).

Code C. Noncash contributions (50%). If property other than cash is contributed, and if the claimed deduction for one item or group of similar items of property exceeds \$5,000, the corporation must give you a copy of Form 8283, Noncash Charitable Contributions, to attach to your tax return. Do not deduct the amount shown on Form 8283. It is the corporation's contribution. Instead, deduct the amount identified by code C, box 12, subject to the 50% AGI limitation, on line 17 of Schedule A (Form 1040).

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

Food inventory contributions.

The corporation will report on an attached statement your share of qualified food inventory contributions. If more than 50% of the corporation's gross income is from farming or ranching, the corporation will show contributions made after October 2, 2008, and before January 1, 2009, separately. The food inventory contribution is not included in the

amount reported in box 12 using code C. The corporation will also report your share of the corporation's net income from the business activities that made the food inventory contribution(s). Your deduction for food inventory contributions generally cannot exceed 10% of your aggregate net income for the tax year from the business activities from which the food inventory contribution was made (including your share of net income from partnership or S corporation businesses that made food inventory contributions). However, if more than 50% of gross income for both you and the corporation is from farming or ranching, you qualify for a 100% AGI limitation for contributions made after October 2, 2008, and before January 1, 2009, and the 10% net business income limitation does not apply to these contributions. Otherwise, your deduction for all food inventory contributions is subject to a 50% AGI limitation and the 10% net business income limitation applies. Report this deduction on line 17 of Schedule A (Form 1040).

Code D. Noncash contributions (30%). Report this amount, subject to the 30% AGI limitation, on line 17 of Schedule A (Form 1040).

Code E. Capital gain property to a 50% organization (30%). Report this amount, subject to the 30% AGI limitation, on line 17 of Schedule A (Form 1040). See *Special 30% Limit for Capital Gain Property* in Pub. 526.

Code F. Capital gain property (20%). Report this amount, subject to the 20% AGI limitation, on line 17 of Schedule A (Form 1040).

Code G. Contributions (100%). The corporation will report your share of qualified cash contributions that were donated for relief efforts in one or more of the Midwestern disaster areas. You can elect to deduct 100% of these contributions on line 16 of Schedule A (Form 1040). If you do not make this election, add this amount to the cash contributions reported in box 12 using code A and enter the total amount, subject to a 50% AGI limitation, on line 16 of Schedule A (Form 1040).

Qualified conservation contributions of property used in agriculture or livestock production. The corporation will report on an attached statement your share of qualified conservation contributions of property used in agriculture or livestock production. This contribution is not included in the amount reported in box 12 using codes C or G. If you

are a farmer or rancher, you qualify for a 100% AGI limitation for this contribution. Otherwise, your deduction for this contribution is subject to a 50% AGI limitation. Report this deduction on line 17 of Schedule A (Form 1040). See Pub. 526 for more information on qualified conservation contributions.

Code H. Investment interest expense. Enter this amount on Form 4952, line 1.

If the corporation has investment income or other investment expense, it will report your share of these items in box 17 using codes A and B. Include investment income and expenses from other sources to figure how much of your total investment interest is deductible.

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

Code I. Deductions—royalty income. Enter deductions allocable to royalties on Schedule E (Form 1040), line 18. For this type of expense, enter "From Schedule K-1 (Form 1120S)."

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

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

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

Under the election, you can deduct circulation expenditures ratably over a 3-year period. Research and experimental expenditures and mining exploration and development costs can be amortized over a 10-year period. Intangible drilling and development costs can be amortized

over a 60-month period. The amortization periods begin with the month in which such costs were paid or incurred.

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

Code K. Deductions—portfolio (2% floor). Amounts entered with code K are deductions that are clearly and directly allocable to portfolio income (other than investment interest expense and section 212 expenses from a REMIC). Generally, you should report these amounts on Schedule A (Form 1040), line 23. See the instructions for Schedule A (Form 1040), lines 23 and 28, for details.

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

Code L. Deductions—portfolio (other). Generally, you should report these amounts on Schedule A (Form 1040), line 28. See the instructions for Schedule A (Form 1040), lines 23 and 28, for details.

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

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

Code N. Commercial revitalization deduction from rental real estate activities. Follow the Instructions for Form 8582 to figure how much of the deduction can be reported on Schedule E (Form 1040), line 28, column (f).

Code O. Reforestation expense deduction. The corporation will provide a statement that describes

the qualified timber property for these reforestation expenses. The expense deduction is limited to \$10,000 (\$5,000 if married filing separately) for each qualified timber property, including your share of the corporation's expense and any reforestation expenses you separately paid or incurred during the tax year.

If you did not materially participate in the activity, use Form 8582 to figure the amount to report on Schedule E (Form 1040), line 28. If you materially participated in the reforestation activity, report the deduction on line 28, column (h), of Schedule E (Form 1040).

Code P. Domestic production activities information. The corporation will provide you with a statement with information that you must use to figure the domestic production activities deduction. Use Form 8903, Domestic Production Activities Deduction, to figure this deduction. For details, see the Instructions for Form 8903.

Code Q. Qualified production activities income (QPAI). Report the QPAI reported to you by the corporation (in box 12 of Schedule K-1) on line 7 of Form 8903.

Code R. Employer's Form W-2 wages. Report the portion of Form W-2 wages reported to you by the corporation (in box 12 of Schedule K-1) on line 15 of Form 8903.

Code S. Other deductions. Amounts with this code may include:

- Itemized deductions that Form 1040 filers report on Schedule A (Form 1040).
- Soil and water conservation and endangered species recovery expenditures. See section 175 for limitations on the amount you are allowed to deduct.
- Expenditures for the removal of architectural and transportation barriers to the elderly and disabled that the corporation elected to treat as a current expense. The deductions are limited by section 190(c) to \$15,000 per year from all sources.
- Interest expense allocated to debt-financed distributions. The manner in which you report such interest expense depends on your use of the distributed debt proceeds. If the proceeds were used in a trade or business activity, report the interest on line 28 of Schedule E (Form 1040). In column (a) enter the name of the corporation and "interest expense." If you materially participated in the trade or business activity, enter the interest expense in

column (h). If you did not materially participate in the activity, follow the Instructions for Form 8582 to figure the interest expense you can report in column (f). See page 4 for a definition of material participation. If the proceeds were used in an investment activity, report the interest on Form 4952. If the proceeds are used for personal purposes, the interest is generally not deductible.

- Contributions to a capital construction fund (CCF). The deduction for a CCF investment is not taken on Schedule E (Form 1040). Instead, you subtract the deduction from the amount that would normally be entered as taxable income on line 43 (Form 1040). In the margin to the left of line 43, enter "CCF" and the amount of the deduction.
- Penalty on early withdrawal of savings. Report this amount on Form 1040, line 30.
- Film and television production expenses. The corporation will provide a statement that describes the film or television production generating these expenses. Generally, if the aggregate cost of the production exceeds \$15 million, you are not entitled to the deduction. The limitation is \$20 million for productions in certain areas (see section 181 for details). If you did not materially participate in the activity, use Form 8582 to determine the amount that can be reported on Schedule E (Form 1040), line 28, column (f). If you materially participated in the production activity, report the deduction on Schedule E (Form 1040), line 28, column (h).

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

Box 13. Credits

If you have credits that are passive activity credits to you, you must complete Form 8582-CR in addition to the credit forms identified below. See *Passive Activity Limitations* on page 3 and the Instructions for Form 8582-CR for details.



In general, shareholders whose only source for credits listed only on page 1 of Form 3800 are from pass-through entities are not required to complete the source credit form or attach it to Form 3800. Instead, you can report this credit directly on page 1 of Form 3800. However, when applicable, all shareholders must complete and attach the following credit forms to Form 3800.

- Form 3468, Investment Credit (line 1a of Form 3800).
- Form 8864, Biodiesel and Renewable Diesel Fuels Credit (line 1l of Form 3800).

Codes A, B, C, and D. Low-income housing credit. If section 42(j)(5) applies, the corporation will report your share of the low-income housing credit using code A or code C, depending on the date the building was placed in service. If section 42(j)(5) does not apply, your share of the credit will be reported using code B or code D, depending on the date the building was placed in service. Any allowable low-income housing credit reported using code A or code B is reported on line 4 of Form 8586, Low-Income Housing Credit, or line 1d of Form 3800 (see TIP on this page). Any allowable low-income housing credit reported using code C or code D is reported on line 11 of Form 8586.

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

Code E. Qualified rehabilitation expenditures (rental real estate).

The corporation will report your share of the qualified rehabilitation expenditures and other information you need to complete Form 3468 related to rental real estate activities using code E. Your share of qualified rehabilitation expenditures from property not related to rental real estate activities will be reported in box 17 using code C. See Form 3468 for details. If the corporation is reporting expenditures from more than one activity, the attached statement will separately identify the expenditures from each activity.

Combine the expenditures (for Form 3468 reporting) from box 13, code E, and from box 17, code C. The expenditures related to rental real estate activities (box 13, code E) are reported on Schedule K-1 separately from other qualified rehabilitation expenditures (box 17, code C) because they are subject to different passive activity limitation rules. See the Instructions for Form 8582-CR for details.

Code F. Other rental real estate credits. The corporation will identify the type of credit and any other

information you need to figure these credits from rental real estate activities (other than the low-income housing credit and qualified rehabilitation expenditures). These credits may be limited by the passive activity limitations. If the credits are from more than one activity, the corporation will identify the credits from each activity on an attached statement. See *Passive Activity Limitations* on page 3 and the Instructions for Form 8582-CR for details.

Code G. Other rental credits. The corporation will identify the type of credit and any other information you need to figure these rental credits. These credits may be limited by the passive activity limitations. If the credits are from more than one activity, the corporation will identify the credits from each activity on an attached statement. See *Passive Activity Limitations* on page 3 and the Instructions for Form 8582-CR for details.

Code H. Undistributed capital gains credit. Code H represents taxes paid on undistributed capital gains by a regulated investment company or real estate investment trust. Report these taxes on line 68 of Form 1040, check box "a" for Form 2439, and enter "Form 1120S." Reduce the basis of your stock by this tax.

Code I. Alcohol and cellulosic biofuel fuels credit. If this credit includes the small ethanol producer credit, the corporation will provide additional information on an attached statement. If no statement is attached, report this amount on line 9 of Form 6478, Alcohol and Cellulosic Biofuel Fuels Credit. If a statement is attached, see the instructions for Form 6478, line 9.

Code J. Work opportunity credit. Report this amount on line 3 of Form 5884, Work Opportunity Credit.

Code K. Disabled access credit. Report this amount on line 7 of Form 8826, Disabled Access Credit, or line 1e of Form 3800 (see TIP on page 10).

Code L. Empowerment zone and renewal community employment credit. Report this amount on line 3 of Form 8844, Empowerment Zone and Renewal Community Employment Credit.

Code M. Credit for increasing research activities. Report this amount on line 62 of Form 6765, Credit for Increasing Research

Activities, or line 1c of Form 3800 (see TIP on page 10).

Code N. Credit for employer social security and Medicare taxes. Report this amount on line 5 of Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips.

Code O. Backup withholding. This is your share of the credit for backup withholding on dividends, interest income, and other types of income. Include this amount in the total you enter on Form 1040, line 62.

Code P. Other credits. On an attachment to Schedule K-1, the corporation will identify the type of credit and any other information you need to figure credits other than those reported with codes A through O. Most credits identified by code P will be reported on Form 3800 (see TIP on page 10).

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

- Unused investment credit from cooperatives (Form 3468, line 12).
- Employee retention and employer housing credits for affected Midwestern disaster area employers (Form 5884-A).
- Orphan drug credit (Form 8820).
- Renewable electricity, refined coal, and Indian coal production credit. The corporation will provide a statement showing separately the amount of credit from Part I and Part II of Form 8835.
- Indian employment credit (Form 8845).
- Credit for contributions to selected community development corporations (Form 8847).
- Welfare-to-work credit (Form 8861).
- Biodiesel and renewable diesel fuels credit. If this credit includes the small agri-biodiesel producer credit, the corporation will provide additional information on an attached statement. If no statement is attached, report this amount on line 11 of Form 8864. If a statement is attached, see the instructions for Form 8864, line 11.
- New markets credit (Form 8874).
- Credit for small employer pension plan startup costs (Form 8881).
- Credit for employer-provided childcare facilities and services (Form 8882).
- Low sulfur diesel fuel production credit (Form 8896).
- Qualified railroad track maintenance credit (Form 8900).
- Distilled spirits credit (Form 8906).
- Nonconventional source fuel credit (Form 8907).
- Energy efficient home credit (Form 8908).
- Energy efficient appliance credit (Form 8909).
- Alternative motor vehicle credit (Form 8910).
- Alternative fuel vehicle refueling property credit (Form 8911).
- Qualified zone academy bond credit. Report this amount on Form 8912.
- Clean renewable energy bond credit. Report this amount on Form 8912.
- New clean renewable energy bond credit. Report this amount on Form 8912.
- Gulf tax credit bond credit. Report this amount on Form 8912.
- Qualified forestry conservation bond credit. Report this amount on Form 8912.
- Midwestern tax credit bond credit. Report this amount on Form 8912.
- Qualified energy conservation bond credit. Report this amount on Form 8912.
- Mine rescue team training credit (Form 8923).
- Agricultural chemicals security credit (Form 8931).
- Credit for employer differential wage payments (Form 8932).
- Carbon dioxide sequestration credit (Form 8933).
- General credits from an electing large partnership. Report these credits on Form 3800, line 1z.

Box 14. Foreign Transactions

Codes A through N. Use the information identified by codes A through N, code Q, and any attached schedules to figure your foreign tax credit. For details, see Form 1116, Foreign Tax Credit, and its instructions. Also see Pub. 514, Foreign Tax Credit for Individuals.

Codes O and P. Extraterritorial income exclusion.

1. *Corporation did not claim the exclusion.* If the corporation reports your share of foreign trading gross receipts (code O) and the extraterritorial income exclusion (code P), the corporation was not entitled to claim the exclusion because it did not meet the foreign economic process requirements. You may still qualify for your share of this exclusion if the corporation's foreign trading gross receipts for the tax year were \$5 million or less. To qualify for this exclusion, your foreign trading gross receipts from all sources for the tax year also must have been \$5

million or less. If you qualify for the exclusion, report the exclusion amount in accordance with the instructions on page 6 for box 1, 2, or 3, whichever applies. See Form 8873, Extraterritorial Income Exclusion, for details.

2. Corporation claimed the exclusion. If the corporation reports your share of foreign trading gross receipts but not the amount of the extraterritorial income exclusion, the corporation met the foreign economic process requirements and claimed the exclusion when figuring your share of corporate income. You also may need to know your share of foreign trading gross receipts from this corporation to determine if you met the \$5 million or less exception discussed above for purposes of qualifying for an extraterritorial income exclusion from other sources.

Note. Upon request, the corporation should furnish you a copy of the corporation's Form 8873 if there is a reduction for international boycott operations, illegal bribes, kickbacks, etc.

Code Q. Other foreign transactions. On an attachment to Schedule K-1, the corporation will report any other information on foreign transactions that you may need using code Q.

Box 15. Alternative Minimum Tax (AMT) Items

Use the information reported in box 15 (as well as your adjustments and tax preference items from other sources) to prepare your Form 6251, Alternative Minimum Tax—Individuals, or Schedule I (Form 1041), Alternative Minimum Tax.

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

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

Code C. This amount is your share of the corporation's depletion adjustment. If you are an individual shareholder, report this amount on line 10 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 corporation should have attached a schedule that shows any income from or deductions allocable to such properties that are included in boxes 2 through 12, 16, and 17 of Schedule K-1. Use the amounts reported here and any other reported amounts 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 corporation on the applicable lines of Form 6251 or Schedule I (Form 1041).

Box 16. Items Affecting Shareholder Basis

Code A. Tax-exempt interest income. Report on your return, as an item of information, your share of the tax-exempt interest received or accrued by the corporation during the year. Individual shareholders include this amount on Form 1040, line 8b. Generally, you must increase the basis of your stock by this amount.

Code B. Other tax-exempt income. Generally, you must increase the basis of your stock by the amount shown, but do not include it in income on your tax return.

Code C. Nondeductible expenses. The nondeductible expenses paid or incurred by the corporation are not deductible on your tax return. Generally, you must decrease the basis of your stock by this amount.

Code D. Property distributions. Reduce the basis of your stock (as explained on page 2) by these distributions. This amount will include any amounts included in income with respect to new clean renewable energy, qualified energy conservation, qualified forestry conservation, or (for bonds issued after October 3, 2008) qualified zone academy bonds. If these distributions exceed the basis of your stock, the excess is treated as capital gain from the sale or exchange of property and is reported on Schedule D (Form 1040).

Code E. Repayment of loans from shareholders. If these payments are made on a loan with a reduced basis, the repayments must be allocated in part to a return of your basis in the loan and in part to the receipt of income. See Regulations section 1.1367-2 for information on reduction in basis of a loan and

restoration in basis of a loan with a reduced basis. See Rev. Rul. 64-162, 1964-1 (Part 1) C.B. 304 and Rev. Rul. 68-537, 1968-2 C.B. 372, for details.

Box 17. Other Information

Code A. Investment income.

Report this amount on line 4a of Form 4952.

Code B. Investment expenses.

Report this amount on line 5 of Form 4952.

Code C. Qualified rehabilitation expenditures (other than rental real estate).

The corporation will report your share of qualified rehabilitation expenditures and other information you need to complete Form 3468 for property not related to rental real estate activities in box 17 using code C. Your share of qualified rehabilitation expenditures related to rental real estate activities is reported in box 13 using code E. See Form 3468 for details. If the corporation is reporting expenditures from more than one activity, the attached statement will separately identify the expenditures from each activity.

Combine the expenditures (for Form 3468 reporting) from box 13, code E and from box 17, code C. The expenditures related to rental real estate activities (box 13, code E) are reported on Schedule K-1 separately from other qualified rehabilitation expenditures (box 17, code C) because they are subject to different passive activity limitation rules. See the Instructions for Form 8582-CR for details.

Code D. Basis of energy property.

If the corporation provides an attached statement for code D, report the information shown on the attached statement on Form 3468. If the corporation's tax year began before October 4, 2008, and you are filing a 2008 tax return, use Form 3468, lines 5a-d, 5f, 5g, 5i, 5j, 5l, 5m, 5o, and 5q, as applicable. Otherwise, use the applicable lines on Form 3468.

Codes E and F. Recapture of

low-income housing credit. The corporation will identify by code E your share of any recapture of a low-income housing credit from its investment in partnerships to which the provisions of section 42(j)(5) apply. All other recapture of low-income housing credits will be identified by code F.

Keep a separate record of each type of recapture so that you will be able to correctly figure any credit recapture that may result from the disposition of all or part of your corporate stock. For details, see Form 8611.

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

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

Code H. Recapture of other credits. On an attachment to Schedule K-1, the corporation will report any information you need to figure the recapture of other credits including the new markets credit, qualified electric vehicle credit, Indian employment credit, credit for employer-provided childcare facilities and services, alternative motor vehicle credit, and alternative fuel vehicle refueling property credit.

Code I. Look-back interest—completed long-term contracts. The corporation will report any information you need to figure the interest due or to be refunded under the look-back method of section 460(b)(2) on certain long-term contracts. Use Form 8697, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to report any such interest.

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

Code K. Dispositions of property with section 179 deductions. The corporation will report your share of gain or loss on the sale, exchange, or other disposition of property for which a section 179 expense deduction was passed through to shareholders with code K. If the corporation passed through a section 179 expense deduction for the property, you must report the gain or loss, if any, and any

recapture of the section 179 expense deduction for the property on your income tax return (see the Instructions for Form 4797 for details). The corporation will provide all the following information.

1. Description of the property.
2. Date the property was acquired and placed in service.
3. Date of the sale or other disposition of the property.
4. Your share of the gross sales price or amount realized.
5. Your share of the cost or other basis plus the expense of sale.
6. Your share of the depreciation allowed or allowable.
7. Your share of the section 179 expense deduction (if any) passed through for the property and the corporation's tax year(s) in which the amount was passed through.

To figure the depreciation allowed or allowable for Form 4797, line 22, add to the amount from item 6 above the amount of your share of the section 179 expense deduction, reduced by any unused carryover of the deduction for this property. This amount may be different than the amount of section 179 expense you deducted for the property if your interest in the corporation has changed.

8. If the disposition is due to a casualty or theft, any information you need to complete Form 4684.
9. If the sale was an installment sale made during the corporation's tax year, any information you need to complete Form 6252, Installment Sale Income. The corporation will separately report your share of all payments received for the property in the following tax years. See the instructions for Form 6252 for details.

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

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

Code M. Section 453(l)(3) information. The corporation will report any information you need to figure the interest due under section 453(l)(3) with respect to the disposition of certain timeshares and residential lots on the installment method. If you are an individual, report the interest on Form 1040, line 61. Enter "453(l)(3)" and the amount of the interest on the dotted line to the left of line 61.

Code N. Section 453A(c) information. The corporation will report any information you need to figure the interest due under section 453A(c) with respect to certain installment sales. If you are an individual, report the interest on Form 1040, line 61. Enter "453A(c)" and the amount of the interest on the dotted line to the left of line 61. See section 453A(c) for details on how to figure the interest.

Code O. Section 1260(b) information. The corporation will report any information you need to figure the interest due under section 1260(b). If the corporation had gain from certain constructive ownership transactions, your tax liability must be increased by the interest charge on any deferral of gain recognition under section 1260(b). Report the interest on Form 1040, line 61. Enter "1260(b)" and the amount of the interest on the dotted line to the left of line 61. See section 1260(b) for details, including how to figure the interest.

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

Code Q. CCF nonqualified withdrawals. The corporation will report your share of nonqualified withdrawals from a capital construction fund (CCF). These withdrawals are taxed separately from your other gross income at the highest marginal ordinary income or capital gains tax rate. Attach a statement to your federal income tax return to show your computation of both the tax and interest for a nonqualified withdrawal. Include the tax and interest on Form 1040, line 61. On the dotted line to the left of line 61, enter the amount of tax and interest and "CCF."

Code R. Depletion information—oil and gas. This is your share of gross income from the property, share of

production for the tax year, etc., needed to figure your depletion deduction for oil and gas wells. The corporation should also allocate to you a proportionate share of the adjusted basis of each corporate oil or gas property. See Pub. 535 for details on how to figure your depletion deduction.

Reduce the basis of your stock by the amount of this deduction up to the extent of your adjusted basis in the property.

Code S. Amortization of reforestation costs. The corporation will provide a statement identifying your share of the amortizable basis of reforestation expenditures paid or incurred before October 23, 2004. The corporation will separately report your share of the amortizable basis of reforestation expenditures for 2001 through 2004. Your amortizable basis of reforestation expenditures for each tax year from all properties is limited to \$10,000 (\$5,000 if married filing separately), including your share of the corporation's expenditures and any qualified reforestation expenditures you separately paid or incurred. To figure your allowable amortization, see section 194 and Pub. 535.

Follow the Instructions for Form 8582 to report a deduction allocable to a passive activity. If you materially participated in the reforestation activity, report the deduction on line 28, column (h), of Schedule E (Form 1040).

Code T. Other information. The corporation will report:

1. Any information you need to complete a disclosure statement for reportable transactions in which the corporation participates. If the corporation participates in a transaction that must be disclosed on Form 8886, Reportable Transaction Disclosure Statement, both you and the corporation may be required to file Form 8886 for the transaction. The determination of whether you are required to disclose a transaction of the corporation is based on the category(s) under which the transaction qualifies for disclosure and is determined by the corporation. You may have to pay a penalty if you are required to file Form 8886 and do

not do so. See the instructions for Form 8886 for details.

2. Gross farming and fishing income. If you are an individual shareholder, report this income, as an item of information, on Schedule E (Form 1040), Part V, line 42. Do not report this income elsewhere on Form 1040.

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

3. The amount included in gross income with respect to qualified zone academy bonds issued before October 4, 2008. Income with respect to these qualified zone academy bonds cannot be used to increase your stock basis. Because this amount is already included in income elsewhere on Schedule K-1, you must reduce your stock basis by this amount. See line 3 of the worksheet on page 2.

4. The amount included in gross income with respect to clean renewable energy bonds. Income with respect to clean renewable energy bonds cannot be used to increase your stock basis. Because this amount is already included in income elsewhere on Schedule K-1, you must reduce your stock basis by this amount. See line 3 of the worksheet on page 2.

5. The amount included in gross income with respect to gulf tax credit bonds. Income with respect to gulf tax credit bonds cannot be used to increase your stock basis. Because this amount is already included in income elsewhere on Schedule K-1, you must reduce your stock basis by this amount. See line 3 of the worksheet on page 2.

6. The amount included in gross income with respect to Midwestern tax credit bonds. Income with respect to Midwestern tax credit bonds cannot be used to increase your stock basis. Because this amount is already included in income elsewhere on Schedule K-1, you must reduce your stock basis by this amount. See line 3 of the worksheet on page 2.

7. Basis in qualifying advanced coal project property. The corporation will provide an attached statement

that shows your share of the corporation's (a) basis in qualified investment in integrated gasification combined cycle property for projects described in section 48A(d)(3)(B)(i) placed in service during the tax year, (b) basis in qualified investment in integrated gasification combined cycle property for projects described in section 48A(d)(3)(B)(ii) placed in service during the tax year, and (c) basis in qualified investment in integrated gasification combined cycle property for projects described in section 48A(d)(3)(B)(iii) placed in service during the tax year. Report these amounts on lines 6a, 6b, and 6c of Form 3468, respectively.

8. Basis in qualifying gasification property. The corporation will provide an attached statement that shows your share of the corporation's (a) basis in qualified investment in property for qualified gasification property placed in service after October 3, 2008, and that includes equipment that separates and sequesters at least 75% of the project's carbon dioxide emissions and (b) basis in qualified investment in property other than a above placed in service during the tax year. Report these amounts on Form 3468, lines 7a and 7b.

9. Inversion gain. The corporation will provide a statement showing the amounts of each type of income or gain that is included in inversion gain. The corporation has included inversion gain in income elsewhere on Schedule K-1. Inversion gain is also reported under code T because your taxable income and alternative minimum taxable income cannot be less than the inversion gain. Also, your inversion gain (a) is not taken into account in figuring the net operating loss (NOL) for the tax year or the NOL that can be carried over to each tax year, (b) may limit your credits, and (c) is treated as income from sources within the U.S. for the foreign tax credit. See section 7874 for details.

10. Any other information you may need to file your return not shown elsewhere on Schedule K-1.

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