

Table of Contents

Forming a Partnership	1
Basic Partnership	1
Advantages and Disadvantages of Forming a Partnership	2
Tax Consequences	3
Contributions of Property	4
Contribution of Services	9
Partnership Agreement	12
Topics to Include in a Partnership Agreement	13
Modifications to a Partnership Agreement	14
Allocation of Tax Items	14
Forming a Partnership Review Questions	21
Forming a Partnership Review Answers	25
Completing Form 1065	29
Tax Year	29
Majority Interest	30
Principal Partner Test	30
Least Aggregate Deferral Method	31
Exceptions to the Required Tax Year	33
Accounting Method	37
Cash Method	37
Accrual Method	42
Filing Requirements	43
Exclusion From Partnership Rules	44
Heading	45
Income	46
Gross Receipts	47
Income (Loss) from Pass-through	48
Farm Profit (Loss)	48
Ordinary Gain (Loss)	49
Other Income (Loss)	49
Cost of Goods Sold	50
Deductions	56
Salaries and Wages	56
Guaranteed Payments	57
Repairs and Maintenance	60

Bad Debts	63
Rent	64
Taxes and Licenses	65
Interest	65
Depreciation	67
Depletion	70
Retirement Plans	70
Employee Benefit Programs	72
Other Deductions	74
Ordinary Business Income (Loss)	79
Schedule B—Other Information	79
Centralized Partnership Audit Regime	86
Schedule L—Balance Sheets Per Books	87
Assets	88
Liabilities and Capital	90
Schedule M-1	92
Schedule M-2	95
Schedule M-3	97
Completing the Return	98
Electronic Filing	98
Signing the Return	99
When to File	99
Where to File	102
Assembling the Return	102
Completing Form 1065 Review Questions	103
Completing Form 1065 Review Answers	109
Schedules K and K-1	115
Schedule K	115
Schedule K-1—Partner’s Share of Income, Deductions, Credits, Etc.	117
Tax Year	119
Part I—Information About the Partnership	119
Part II—Information About the Partner	119
Part III—Partner’s Share of Current Year Income, Deductions, Credits, and Other Items	124
Pass-through Items	124