

# Table of Contents

<b>Forming a Partnership .....</b>	<b>1</b>
Basic partnership .....	1
Advantages and disadvantages of forming a partnership.....	2
Tax consequences .....	3
Contributions of property.....	4
Contribution of services.....	8
Partnership agreement .....	10
Topics to include in a partnership agreement.....	11
Modifications to a partnership agreement.....	12
Allocation of tax items .....	13
<b>Completing Form 1065 .....</b>	<b>24</b>
Tax year.....	24
Majority interest.....	24
Principal partner test .....	25
Least aggregate deferral method.....	26
Exceptions to the required tax year .....	28
Accounting method .....	31
Cash method .....	31
Accrual method.....	34
Filing requirements .....	35
Exclusion from partnership rules.....	36
Heading.....	37

Income .....	39
Gross receipts or sales.....	39
Ordinary income (loss) from pass-through entity .....	40
Net farm profit (loss) .....	40
Net gain (loss) .....	41
Other income (loss) .....	41
Cost of goods sold .....	42
Deductions.....	48
Salaries and wages .....	49
Guaranteed payments.....	49
Repairs and maintenance.....	53
Bad debts .....	56
Rent.....	56
Taxes and licenses .....	57
Interest.....	57
Depreciation.....	60
Depletion.....	64
Retirement plans .....	64
Employee benefit programs.....	66
Other deductions .....	68
Nondeductible expenses.....	71
Ordinary business income (loss) .....	72
Schedule B—Other Information.....	73
Centralized partnership audit regime .....	80
Schedule L—Balance Sheets per Books.....	83
Assets.....	84
Liabilities and capital .....	86
Schedule M-1 .....	87
Schedule M-2 .....	91
Schedule M-3 .....	92

<b>Completing the return.....</b>	<b>93</b>
Electronic filing .....	93
Signing the return.....	94
When to file.....	94
Where to file.....	97
Assembling the return .....	97
<b>Schedules K and K-1 .....</b>	<b>109</b>
Schedule K.....	109
Analysis of net income (loss).....	111
Schedule K-1—Partner’s Share of Income,Deductions, Credits, etc. ....	112
Tax year .....	117
Part I—Information About the Partnership .....	117
Part II—Information About the Partner .....	118
Part III—Partner’s Share of Current Year Income, Deductions, Credits, and Other Items.....	125
Deductions.....	133
Self-employment income (loss).....	141
Credits .....	143
Foreign transactions.....	147
Alternative minimum tax items.....	153
Tax-exempt income and nondeductible expenses .....	156
Distributions .....	157
Investment income and expenses .....	158
Other items and amounts.....	159
<b>Partner’s Basis and Partnership Distributions .....</b>	<b>174</b>
Partner’s basis .....	174
Initial basis .....	175
Adjustments.....	177
Suspended losses.....	180
Outside basis vs. capital accounts .....	182

<b>Partnership liabilities.....</b>	<b>182</b>
Recourse liabilities.....	183
Nonrecourse liabilities.....	183
Qualified nonrecourse financing.....	184
<b>Partnership distributions.....</b>	<b>185</b>
Current distributions.....	185
Liquidating distributions.....	193
<b>Appendix .....</b>	<b>201</b>
<b>Index.....</b>	<b>239</b>