## 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	11
Topics to include in a partnership agreement	12
Modifications to a partnership agreement	13
Allocation of tax items	13
Completing Form 1065	23
Tax year	23
Majority interest	23
Principal partner	24
Least aggregate deferral method	25
Exceptions to the required tax year	26
Accounting method	30
Cash method	30
Accrual method	33
Filing requirements	34
Exclusion from partnership rules	34
Heading	35
Income	37
Gross receipts or sales	38
Ordinary income (loss) from pass-through entity	38
Net farm profit (loss)	39
Net gain (loss)	39
Other income (loss)	40

	Cost of goods sold	41
Dec	ductions	47
	Salaries and wages	47
	Guaranteed payments	48
	Repairs and maintenance	51
	Bad debts	54
	Rent	55
	Taxes and licenses	55
	Interest	56
	Depreciation	59
	Depletion	62
	Retirement plans	62
	Employee benefit programs	64
	Other deductions	66
	Nondeductible expenses	69
	Ordinary business income (loss)	70
Sch	nedule B: Other Information	71
	Centralized partnership audit regime	79
Sch	nedule L: Balance Sheets per Books	81
	Assets	82
	Liabilities and capital	84
Sch	nedule M-1	85
Sch	nedule M-2	89
Sch	nedule M-3	90
Coi	mpleting the return	91
	Electronic filing	91
	Signing the return	92
	When to file	92
	Where to file	94
	Assembling the return	94

Schedules K and K-1	107
Schedule K	107
Analysis of net income (loss)	109
Schedule K-1: Partner's Share of Income, Deductions, Credits, etc	110
Tax year	115
Part I: Information About the Partnership	115
Part II: Information About the Partner	115
Part III: Partner's Share of Current Year Income, Deductions, Credits, and Other Items	122
Deductions	129
Self-employment income (loss)	137
Credits	138
International transactions	143
Alternative minimum tax items	143
Tax-exempt income and nondeductible expenses	146
Distributions	147
Investment income and expenses	149
Other items and amounts	149
Partner's Basis and Partnership Distributions	165
Partner's basis	165
Initial basis	166
Adjustments	168
Suspended losses	170
Outside basis vs. capital accounts	171
Partnership liabilities	172
Recourse liabilities	172
Nonrecourse liabilities	172
Qualified nonrecourse financing	173
Partnership distributions	174
Current distributions	174

Liquidating distributions	177
Appendix	186
Appendix A: Case Study	187
Appendix B: Partnership Agreement Planning Checklist	205
Appendix C: Sample Partnership Agreement	207
Appendix D: Partnership Code Sections	218
Appendix E: Codes for Principal Business Activity and Principal Product or Service	220
Index	225

viii © NATP