



Addendum: Preparing Partnership Returns

Revision 1:

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The text says the timing of a draw or advance is different from a current distribution. This is incorrect if you follow the ordering rules listed earlier under Reg. §1.704-1(d)(2) (see page 173). The IRS follows these ordering rules in the worksheet its provides in the partner's Schedule K-1 instructions. Therefore, the example is changed as follows.

Debbie is a partner in Biz Partners. Her outside basis is \$15,000 at the beginning of the year. She receives draws or advances of \$8,500 on June 30 and \$8,500 on December 31. Her share of taxable income for the year is \$7,250. She would have to repay \$9,750 (\$17,000 - \$7,250) because her draws or advances was more than current year income.

Beginning outside basis	\$15,000
Current year income	<u>7,250</u>
Subtotal	22,250
Draws or advances	<u>(17,000)</u>
Ending outside basis	<u>\$ 5,250</u>

Variation: If Debbie takes current distributions instead of draws or advances, she would not have to repay \$9,750.

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The incorrect number was reported on Schedule K-1, Box 14, Code A.

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