YEAR 1996

Partner's Share of Income, Deductions, Credits, etc.

CALIFORNIA SCHEDULE

K-1 (565)

For taxable or income year beginning MONTH ___ DAY ___ YEAR 1996, and ending MONTH ___ DAY ___ YEAR ___.

Partner's identifying number	Partnership's FEIN
Partner's name, address, state and ZIP code	Secretary of State file number
	Partnership's name, address, state and ZIP code

A Is this partner a: ● **(1)** ☐ general partner; or **(2)** ☐ limited partner?

B Partner's share of liabilities:

Nonrecourse . . . . $ ________

Qualified nonrecourse financing . . $ ________

Other . . . . $ ________

C What type of entity is this partner? ●

(1) ☐ Individual **(4)** ☐ Corporation **(7)** ☐ LLP

(2) ☐ S Corporation **(5)** ☐ General Partnership **(8)** ☐ IRA/Keogh/SEP

(3) ☐ Estate/Trust **(6)** ☐ LLC **(9)** ☐ Limited Partnership

D Check here if this partnership is a publicly traded partnership as defined in IRC Section 469(k)(2) . . . . ☐

E Enter partner's percentage (without regard to special allocations) of:

	(i) Before decrease or termination	(ii) End of year
Profit sharing	___.____%	● ___.____%
Loss sharing	___.____%	● ___.____%
Ownership of capital	___.____%	● ___.____%

F Tax shelter registration number ________

G Check here if this is: ●

(1) ☐ a final Schedule K-1 (565) **(2)** ☐ an amended Schedule K-1 (565)

H Is this partner a foreign partner? . . . . ● ☐ Yes ☐ No

I Is this partner a nonresident of California?. . . . . . ▶ ☐ Yes ● ☐ No

J Analysis of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of line 3, line 4 and line 7 Form 565, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year (combine column (a) through column (d))
			( )	

Caution: Refer to Partner's Instructions for federal Schedule K-1 (1065) before entering information from this schedule on your tax return.

	(a) Distributive share item	(b) Amount from federal Schedule K-1 (1065)	(c) Adjustments	(d) Total amounts using California law (Combine column (b) and column (c))	(e) California source amounts and credits
Income (Loss)	1 Ordinary income (loss) from trade or business activities			●	▶
	2 Net income (loss) from rental real estate activities.			●	▶
	3 Net income (loss) from other rental activities				
	4 Portfolio income (loss):				
	a Interest			●	▶
	b Dividends			●	▶
	c Royalties			●	▶
	d Net capital gain (loss)			●	▶
	e Other portfolio income (loss) Attach schedule			●	▶
	5 Guaranteed payments to partners			●	▶
	6 Net gain (loss) under IRC Section 1231 (other than due to casualty or theft)			●	▶
	7 Other income (loss). Attach schedule . . .			●	▶
Deductions	8 a Charitable contributions				
	b Political contributions				
	9 Expense deduction for recovery property (R&TC Sections 17252.5, 17265 and 17266 and IRC Section 179). Attach schedule.				
	10 Deductions related to portfolio income. Attach schedule				
	11 Other deductions. Attach schedule				

	(a) Distributive share item	(b) Amount from federal Schedule K-1 (1065)	(c) Adjustments	(d) Total amounts using California law (Combine column (b) and column (c))	(e) California source amounts and credits
Investment Interest	12 a Interest expense on investment debts .				
	b (1) Investment income included on line 4a through line 4e				
	(2) Investment expenses included on line 10				
Credits	13 a (1) Withholding on partnership allocated to all partners				
	(2) Partnership withholding on nonresident partners				
	(3) Total withholding (equals amount on Form 592-B if calendar year partnership)			●	▶
	b Low-income housing credit				
	c Credits other than line 13b related to rental real estate activities. Attach schedule				
	d Credits related to other rental activities. See instructions. Attach schedule . . .				
	14 Other credits. Attach required schedules or statements.				
Adjustments and Tax Preference Items	15 a Depreciation adjustment on property placed in service after 1986				
	b Adjusted gain or loss				
	c Depletion (other than oil and gas) . . .				
	d (1) Gross income from oil, gas and geothermal properties				
	(2) Deductions allocable to oil, gas and geothermal properties				
	e Other adjustments and tax preference items. Attach schedule				
Other	16 a Total expenditures to which an IRC Section 59(e) election may apply .				
	b Type of expenditures______________				
	17 Tax-exempt interest income.				
	18 Other tax-exempt income				
	19 Nondeductible expenses				
	20 Distributions of money (cash and marketable securities)				
	21 Distributions of property other than money				

22 Supplemental information required to be reported separately to each partner. Attach additional schedules. See instructions. $ ______________

Table 1 — Income of the partnership not attributable to the business, trade or profession of the partnership (nonbusiness income)

A. Partner's share of income from real and tangible property in California:

Capital Gains/Losses $ ______________ Rents/Royalties $ ______________

1231 Gains/Losses $ ______________ Other $ ______________

B. Partner's share of income from intangibles:

Interest $ ______________ Royalties $ ______________ Dividends $ ______________

1231 Gains/Losses $ ______________ Capital Gains/Losses $ ______________ Other $ ______________

C. California credits (attach schedule of credits). $ ______________

Table 2 — Unitary partner's share of business income and factors

A. Partner's share of the partnership's business income. See instructions. $ ______________

B. Partner's share of the partnership's property, payroll and sales:

Factors	Total within and outside California	Total within California
Property: Beginning	$	$
Ending	$	$
Payroll	$	$
Sales	$	$

Partner's Instructions for Schedule K-1 (565)

General Information

A Purpose

The partnership uses Schedule K-1 (565) to report to you your share of the partnership's income, deductions, credits, etc. Please keep it for your records. Do not file it with your tax return. The partnership has filed a copy with the FTB.

Although the partnership is not subject to income tax, you are subject to tax on your share of the partnership income, whether or not distributed.

The amount of loss and deduction that you may claim on your tax return may be less than the amount reported on Schedule K-1 (565). Generally, the amount of loss and deduction you may claim is limited to your basis in the partnership and the amount for which you are considered at-risk. If you have losses, deductions or credits from a passive activity, you must also apply the passive activity rules. It is the partner's responsibility to consider and apply any applicable limitations. See General Line Instruction A, Limitations on Losses, Deductions and Credits.

You should read the federal Schedule K-1 (1065) instructions before completing your tax return with this Schedule K-1 (565) information.

B Definitions

General Partner

A general partner is a member of the organization who is personally liable for partnership debts.

Limited Partner

A limited partner is one whose potential personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership.

Nonrecourse Loans

Nonrecourse loans are those liabilities of the partnership for which none of the partners has any personal liability.

Corporate Limited Partners

Corporate limited partners of partnerships doing business in California are not considered to be doing business in California and are therefore not subject to the corporate franchise tax.

Apportionment

Apportionment is the process by which business income from a trade or business which is conducted in two or more states (an apportioning trade or business) is divided between taxing jurisdictions. The apportionment percentage is determined by reference to the California property, payroll and sales factors of the apportioning trade or business. The total business income of the unitary business is multiplied by this percentage to derive the amount of business income apportioned to California.

Unitary

Under the unitary method, all of the activities comprising a single trade or business are viewed as a single unit, irrespective of whether those activities are conducted by divisions of a single entity or by commonly owned or controlled entities. The business income from all of the unitary business activities is combined into a single report. An apportionment formula is then applied to the combined business income to determine the portion attributable to California. For further information about unitary business principles, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

Elections

Generally, the partnership decides how to figure taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use.

However, certain elections are made by you separately on your individual income tax return and not by the partnership. These elections are made under the following federal Internal Revenue Code (IRC) sections, to which California conforms:

- IRC Section 108(b)(5) (income from discharge of indebtedness); and
- IRC Section 617 (deduction and recapture of certain mining exploration expenditures, paid or incurred).

Additional Information

For more information on the treatment of partnership income, deductions, credits, etc., get the following federal publications: Publication 541, Partnerships, and Publication 535, Business Expenses.

C Specific Instructions

Questions and Items A through I

The partnership completes the questions and items at the top of Schedule K-1 (565) for all partners. For more information, see the federal instructions for Schedule K-1 (1065).

Schedule K-1 (565)

Important Note to Partners: If your Schedule K-1 (565) reports losses and/or deductions, you must first apply the basis limitations described under IRC Section 704(d), the at-risk limitations found under IRC Section 465, and the passive activity loss limitations under IRC Section 469 before such losses/deductions can be deducted on your return. See General Line Instruction A, Limitations on Losses, Deductions and Credits, for additional information. IRC Section 705(a) provides direction on how to compute your basis. If your return is ever examined, you may be required to provide your computations and the supporting documents. You will also need to know your basis if you ever transfer, sell, or exchange your interest in the partnership and if the partnership terminates.

If you are an individual partner, the amounts in column (c), California adjustments, that are from nonpassive activities must be reported on the appropriate California form or schedule; i.e., Schedule D, California Capital Gain or Loss Adjustment, Schedule D-1, Sales of Business Property, Schedule CA (540), California Adjustments — Residents, or Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents.

Amounts in column (e), California source amounts and credits, that are from passive activities must be reported on form FTB 3801, Passive Activity Loss Limitations, and the related worksheets that are used to figure any passive loss limitations.

If you are not an individual partner, report the amounts as instructed on your tax return.

If you have losses, deductions, credits, etc., from a prior year that were not deductible or usable because of certain limitations, such as the at-risk rules, they may be taken into account in determining your net income, loss, etc., for this year. However, do not combine the prior-year amounts with any amounts shown on this Schedule K-1 (565) to get a net figure to report on any supporting schedules, statements or forms attached to your return. Instead, report the amounts on an attached schedule, statement or form on a year-by-year basis.

See the federal instructions for Schedule K-1 (1065), At-Risk Limitations, for more information.

D Reporting Information from Columns (d) and (e)

If the partnership income is from activities both within and outside of California, the partnership will complete Schedule R, Apportionment and Allocation of Income, to determine the partnership income from California sources. Resident partners will use only the information in column (c) and column (d) to report their share of the partnership's income or loss. Nonresident, other entity and corporate partners must report their share of income apportioned or allocated to California as indicated on Schedule K-1 (565). Special rules apply if a partner and the partnership engage in a unitary business. See Title 18, Cal. Code Reg. Sections 17951, 25137-1 for more information. Also see General Information F, Unitary Partners. Nonresident, other entity and corporate partners (other than partners that are unitary with the partnership) will use the information in columns (c), (d) and (e) to report their distributive share of income (losses) or credits. The data in Table 1, Part A has already been reflected in column (e). Residents, part-year residents and some nonresidents may qualify for a credit for taxes paid to other states on income that is apportioned or allocated to a state other than California.

E Income not from a Trade Or Business of the Partnership

If the partnership has income that is not from a trade or business (nonbusiness income), the source of that income will be determined at the partner level. Generally, income from real or tangible property located in California, such as rents, royalties, gains or losses, is California source income (Title 18 Cal., Code Reg. Section 17951-3 and R&TC Sections 25124 and 25125). This information should be included on the appropriate line of column (e), as well as in Table 1, Part A. Nonunitary members should ignore the information in Table 1, Part A.

The source of income from intangibles will depend on whether the partner is required to apportion its income and whether the partner is a corporation. In most cases, income from intangible property is sourced at the residence (or commercial domicile of a corporation) of the partner.

However, for individuals, estates, and trusts that are not required to apportion their income, income from an intangible will have a California source if the intangible has acquired a California business situs. See Title 18, Cal. Code Reg. Sections 17951-3 and 17952. If the intangible income is determined to have a business situs by the partnership, the intangible income will be included in column (e).

If the partner is an apportioning taxpayer or is a corporation, Title 18, Cal. Code Reg. Sections 17951-4 and 25137-1 require that income from intangibles be characterized as nonbusiness income and allocated in accordance with the rules of R&TC Sections 25126 and 25127.

Because the source of intangible income is dependent upon the status of the individual partner, that income is not included in column (e) and is entered only in Table 1, Part B. The partner must determine the source of such income by applying the rules described above.

F Unitary Partners

Note: The following rules apply not only to corporations, but to an individual or other entity that conducts a trade or business that is unitary with the partnership (see Title 18, Cal. Code Reg. Section 17951, incorporating the provisions of Section 25137 and regulations thereunder).

Unitary partners cannot use the California source information reflected in column (e). Such partners must use the information in Table 1 and Table 2, as described below.

The partner's distributive share of partnership items is determined by applying the partnership rules in R&TC Sections 17851 through 17858. The determination of the portion of the distributive share of business and nonbusiness income that has its source in this state or that is includible in the partner's business income subject to apportionment are made in accordance with Title 18, Cal. Code Reg. Section 25137-1 if the partner, or the partnership, or both, have income from sources within and outside this state. The partner, in computing net income for its tax accounting period, must include its distributive share of partnership items referred to above for any partnership taxable year ending within or with the partner's tax accounting period.

Distributive Items of Business Income

Apportionment of Business Income – Unitary Business — If the partnership's activities and the partner's activities constitute a unitary business under established standards, disregarding ownership requirements, the combined business income of this single trade or business apportioned to California is determined by combining the partner's distributive share of the partnership's apportionment factors for any partnership year ending within the partner's tax accounting period with the factors of the partner. Combined business income is then apportioned by using a 3 or 4 factor formula consisting of property, payroll and a single or double-weighted sales factor of the partner. Use of a 3 or 4 factor formula depends upon whether combined gross business receipts (partner's share of the partnership's gross business receipts plus the partner's own gross business receipts) are primarily from agricultural, extractive, savings and loans or banks and financial activities.

If you are a partner that is unitary with a partnership, use Table 2 to compute your factors, applying the rules shown below (see Title 18, Cal. Code Reg. Section 25127-1 for examples). Partners that are unitary with the partnership should perform the following steps:

1. Combine your distributive share of the partnership's business income with your own business income to determine total business income.
2. Compute property, payroll and sales factors by combining the partnership's factors from Table 2, Part B with your own factors as explained below.
3. Apply the apportionment factor determined in Step 2 to the total business income determined in Step 1 to arrive at business income apportioned to this state.

1. Unitary Partner's Computation of Property Factor

Use Schedule R to compute the numerator and the denominator of the property factor. Adjust factors in accordance with Title 18, Cal. Code Reg. Sections 25130 and 25131. Also apply the following special rules:

A. Include in the denominator of the partner's property factor the partnership's beginning and ending balances from Table 2, Part B of real and tangible property (owned or rented) and used during the tax accounting period in the regular course of business, to the extent of the partner's interest in the partnership; and

B. Include in the numerator of the partner's property factor the value of such property that is described in 1A above and that is located in California.

C. See Title 18, Cal. Code Reg. Section 25137-1(f)(1)(B) for examples of how to include the value of property that is rented by the partner to the partnership or by the partnership to the partner.

2. Unitary Partner's Computation of Payroll Factor

Use Schedule R to compute the numerator and the denominator of the payroll factor in accordance with Title 18, Cal. Code Reg. Sections 25132 and 25133. Apply the following special rules:

A. Include in the denominator of the partner's payroll factor the partnership's payroll used to produce business income from Table 2, Part B; and

B. Include in the numerator any such payroll described in 2A that is applicable to California.

3. Unitary Partner's Computation of the Sales Factor

Compute the numerator and denominator of the sales factor in accordance with the Title 18, Cal. Code Reg. Sections 25134 to 25136. Apply the following special rules:

A. Include in the denominator of the sales factor the partnership's sales that give rise to business income from Table 2, Part B;

B. Include in the numerator of the partner's sales factor the amount of such sales described in 3A attributable to California; and

C. Eliminate intercompany sales as follows:

- Sales by the partner to the partnership to the extent of the partner's interest in the partnership; or
- Sales by the partnership to the partner not to exceed the partner's interest in all partnership sales (see Title 18, Cal. Code Reg. Section 25137-1(f)(3)).

Distributive Items of Nonbusiness Income for a Unitary Partner

Income in Table 1, Part A is from a California source under R&TC Sections 25124 and 25125. Because Schedule K-1 (565), column (e) data is not utilized by a unitary partner, partners must make certain to separately include such items as California source income.

Income in Table 1, Part B is the partner's share of all intangible income. Such income is California source income to the extent allocated to the state under R&TC Sections 25126 and 25127.

General Line Instructions

Line 1 through Line 3 – The amounts shown on line 1 through line 3 reflect your share of income or loss from partnership business or rental operations without reference to limitations on losses or adjustments that may be required of you because of:

- The adjusted basis of your partnership interest;
- The amount for which you are at-risk as determined under IRC Section 465; or
- The passive activity limitations of IRC Section 469.

See the federal instructions for line 1 through line 24 for more information. **Note:** Federal line 15a through line 15c and line 17a through line 17g do not apply to California.

A Limitations on Losses, Deductions and Credits

There are three separate potential limitations on the amount of partnership losses that you may deduct on your return. These limitations and the order in which they must be applied are: the basis rules, the at-risk rules and the passive loss rules. Each of these limitations is discussed separately below.

Note: Other limitations may apply to specific deductions such as, the investment interest expense deduction. These limitations on specific deductions generally apply before the basis, at-risk and passive loss limitations.

Basis Rules

Generally, you may not claim your share of a partnership loss (including a capital loss) that is greater than the adjusted basis of your partnership interest at the end of the partnership's taxable year.

You can compute the adjusted basis of your partnership interest by adding items that increase your basis and then subtracting items that decrease your basis.

Items that increase your basis are:

- Money and your adjusted basis of property contributed to the partnership;
- Your distributive share of the partnership's income; and
- Your distributive share of the increase in the liabilities of the partnership (and/or your individual liabilities caused by your assumption of partnership liabilities).

Items that decrease your basis are:

- Money and your adjusted basis of property distributed to you;
- Your share of the partnership's losses; and
- Your share of the decrease in the liabilities of the partnership (and/or your individual liabilities assumed by the partnership).

This is not a complete list of items and factors that determine basis. Get federal Publication 541 for a complete discussion of how to determine the adjusted basis of your partnership interest.

Generally, the California basis is the same as the federal basis.

At-Risk Rules

Generally, if you have: (1) a loss or other deduction from an activity carried on as a trade or business or for the production of income by the partnership; and (2) amounts in the activity for which you are not at-risk, you will have to complete federal Form 6198, At-Risk Limitations, to figure the allowable loss to report on your return. Complete federal Form 6198 using California amounts.

The at-risk rules generally limit the amount of loss, (including loss on disposition of assets) and other deductions (such as the IRC Section 179, R&TC Sections 17252.5, 17265, 17266 and 17268 deduction) that you can claim to the amount you could actually lose in the activity. See the federal instructions for Schedule K-1 (1065), At-Risk Limitations, for more information.

Passive Loss Rules

IRC Section 469 limits the deduction of certain losses and credits. California law is the same as this federal provision. These rules apply to partners who:

- Are individuals, estates, trusts, closely held corporations, personal service corporations or S corporations; and
- Have a passive activity loss or credit for the taxable year.

A passive activity is generally a trade or business activity in which the partner does not materially participate or a rental activity. A partnership may have more than one activity. Each partner must apply the passive activity loss limitations on an activity by activity basis.

Individuals, estates and trusts must complete form FTB 3801, Passive Activity Loss Limitations, to figure the allowable passive losses, and form FTB 3801-CR, Passive Activity Credit Limitations, to figure the allowable passive credits. Corporations must complete form FTB 3802, Corporate Passive Activity Loss and Credit Limitations.

The amounts reported on line 1 and line 14 of Schedule K-1 (565) are passive activity income (loss) or credits from the trade or business of the partnership if you are a limited partner, or if you are a general partner who did not materially participate in the trade or business activities of the partnership. The amounts reported on line 2, line 3 and line 13b of Schedule K-1 (565) are from rental activities of the partnership and are passive activity income (loss) or credits to all partners. There is an exception to this rule for losses incurred by qualified investors in qualified low-income housing projects. The partnership will identify any of these qualified amounts on an attachment for line 2.

See the federal instructions for Schedule K-1 (1065), Passive Activity Limitations, for more information.

Specific Line Instructions

Enter the difference between federal and California amounts from column (c) on Schedule CA (540), California Adjustments — Residents, if you are a resident, or on Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents, if you are a nonresident. Also, if you are a nonresident, enter California source amounts from the Schedule K-1 (565), column (e), on your Schedule CA (540NR), column (E).

Note to Nonresident Partners: The specific line instructions below that instruct you to enter information from Schedule K-1 (565), column (d), on other forms, apply to resident partners. When the instructions make reference to column (d), nonresident partners should take information from columns (c), (d) and (e) and apply the information to the appropriate line relating to computation of total income and income from California sources.

A Income

Line 1 – Ordinary Income (Loss) from Trade or Business Activities

The amount reported on line 1, column (d), is your share of the ordinary income (loss) from the trade or business activities of the partnership. For individual partners, generally, where you report this amount on Form 540 or Form 540NR depends on whether or not the amount is from an activity that is a passive activity to you.

If, in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the income on form FTB 3801. If a loss is reported on line 1, column (d), report the loss on the applicable line of form FTB 3801 to determine how much of the loss is allowable.

Note: If the partnership income is from activities both within and outside of California, the amount of income nonresidents or corporate partners must report on their income or franchise tax return is a function of the partnership's apportionment percentage and allocation of income for the specific partners. Reporting instructions are included in the information provided by the partnership. See also Title 18, Cal. Code Reg. Sections 17951-4 and 25137-1 for more information. Also see General Information F, Unitary Partners.

Line 2 – Income (Loss) from Rental Real Estate Activities

Generally, the income (loss) reported on line 2, column (d), is a passive activity amount to all partners. There is an exception, however, for losses from a qualified low-income housing project. The loss limitations of IRC Section 469 do not apply to qualified investors in qualified low-income housing projects. If applicable, the partnership will attach a schedule for line 2 to identify such amounts. You will have to report the California adjustment amount from column (c) on Schedule CA (540 or 540NR).

Use the following instructions to determine where to enter the line 2 amount.

- If you have a loss on line 2, column (d) (other than a qualified low-income housing project loss), enter the loss on the applicable line of form FTB 3801 to determine how much of the loss is allowable. Your share of the loss may be eligible for the special $25,000 allowance for rental real estate losses. Get the instructions for form FTB 3801 for more information.

See the federal Specific Instructions for line 2, item 1 and item 2 for more information.

Note: If you are a qualified investor reporting a qualified low-income housing project loss, report the California adjustment amount from column (c) on Schedule CA (540 or 540NR).

- If you have only income on line 2, column (d), and no other passive losses, enter the California adjustment amount from column (c) on Schedule CA (540 or 540NR). However, if in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the line 2, column (d), income on the applicable line of form FTB 3801.

Line 3 – Income (Loss) from Other Rental Activities

The amount on line 3, column (d) is a passive activity amount for all partners.

- If line 3, column (d) is a loss, report the loss on the applicable line of form FTB 3801.
- If only income is reported on line 3, column (d), and you have no other passive losses, report the California adjustment from column (c) on Schedule CA (540 or 540NR). However, if in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the line 3 income on the applicable line of form FTB 3801.

Line 4a through Line 4e – Portfolio Income (Loss)

Portfolio income (loss) referred to as ''portfolio'' in these instructions is not subject to the passive activity limitations of IRC Section 469. Portfolio income includes interest, dividend and royalty income and gain or loss on the sale of property held for investment. If you have amounts on Schedule K-1 (565), line 4a through line 4e, report these amounts as follows:

- Line 4a, column (c) — Report on Schedule CA (540 or 540NR), line 8, column B or line 8, column C, whichever is applicable;

- Line 4b, column (c) — Report on Schedule CA (540 or 540NR), line 9, column B or line 9, column C, whichever is applicable;
- Line 4c, column (c) — Report on Schedule CA (540 or 540NR), line 17, column B or line 17, column C, whichever is applicable;
- Line 4d, column (d) — Report on Schedule D; and
- Line 4e, column (d) — Report on applicable schedule.

Caution: Generally, amounts reported on line 4d and line 4e are gains or losses attributable to the disposition of property held for investment and are, therefore, classified as portfolio income (loss). If, however, an amount reported on line 4d or line 4e, column (d) is a passive activity amount, the partnership will identify the amount.

The partnership uses line 4e, column (d), to report portfolio income other than interest, dividend, royalty and capital gain (loss) income. The partnership will attach a schedule to Schedule K-1 (565) to tell you what kind of portfolio income is reported on line 4e, column (d). An example of portfolio income that could be reported on line 4e, column (d), is from a real estate mortgage investment conduit (REMIC) in which the partnership is a residual interest holder.

If the partnership has a residual interest in a REMIC, it will report on the schedule your share of REMIC taxable income (net loss). Report the adjustment amount from column (c) on Schedule CA (540 or 540NR). The partnership will also report your share of ''excess inclusion'' and your share of IRC Section 212 expenses. If you itemized your deductions on federal Schedule A (1040), you may deduct these IRC Section 212 expenses as a miscellaneous deduction subject to the 2% adjusted gross income limit and the high income taxpayer adjustment.

Line 5 – Guaranteed Payments to Partners

Generally, amounts on this line are not part of a passive activity. If there is an amount on Schedule K-1 (565), line 5, column (c), enter this amount on Schedule CA (540 or 540NR), line 21, column B or line 21, column C, whichever is applicable.

Line 6 – Net Gain (Loss) Under IRC Section 1231 (Other Than Due to Casualty or Theft)

If the amount on line 6 relates to rental activity, the IRC Section 1231 gain (loss) is a passive activity amount. If the amount relates to a trade or business activity and you are a limited partner, the IRC Section 1231 gain (loss) is a passive activity amount.

- If the amount is not a passive activity amount to you, report it on Schedule D-1, Sales of Business Property, line 2, column (g) or column (h), whichever is applicable. You do not have to complete column (b) through column (f). Write ''From Schedule K-1 (565)'' across these columns.
- If a gain is reported on line 6, column (d), and it is a passive activity amount to you, report the gain on Schedule D-1, line 2, column (h), and be sure to see ''Passive Loss Limitations'' on page 1 of the instructions for Schedule D-1.
- If a loss is reported on line 6, column (d), and it is a passive activity amount to you, see ''Passive Loss Limitations'' on page 1 of the instructions for Schedule D-1. You must use form FTB 3801 to determine how much of the loss is allowed on Schedule D-1.

Line 7 – Other Income (Loss)

Amounts on this line are other items of income (loss) not included on line 1 through line 6.

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

The instructions below tell you where to report line 7 items if the items are not passive activity amounts.

Report loss items that are passive activity amounts on form FTB 3801.

Report income or gain items that are passive activity amounts as instructed below. However, if in addition to this passive activity income or gain, you have passive activity losses from any other source, report the passive activity income or gain on form FTB 3801.

Line 7 items may include:

- Partnership gains from disposition of farm recapture property (get Schedule D-1) and other items to which IRC Section 1252 applies;
- Recoveries of bad debts, prior taxes and delinquency amounts (IRC Section 111). Report the amount from line 7, column (c), on Schedule CA (540 or 540NR), line 21f, column B or line 21f, column C, whichever is applicable;
- Gains and losses from wagering (IRC Section 165(d)). Report the amount from line 7, column (c), on Schedule CA (540 or 540NR), line 21f, column B or line 21f, column C, whichever is applicable;
- Any income, gain or (loss) to the partnership under IRC Section 751. Report this amount on Schedule D-1, line 10;
- Specially allocated ordinary gain or (loss). Report this amount on Schedule D-1, line 10; and
- Net gain or (loss) from involuntary conversions due to casualty or theft. The partnership will give you a schedule that shows the California amounts to be entered on federal Form 4684, Casualties and Thefts, Section B, Part II, line 34, column (b)(i), column (b)(ii) and column (c).

B Deductions

Line 8a & Line 8b – Charitable and Political Contributions

The partnership will give you a schedule that shows which contributions were subject to the 50%, 30% and 20% limitations. For further information, see the instructions for federal Form 1040.

If there is an amount on Schedule K-1 (565), line 8a or line 8b, column (c), enter this amount on Schedule CA (540 or 540NR), line 36.

Line 9 – Expense Deduction for Recovery Property

The maximum amount of expense deduction for recovery property (IRC Section 179 deduction) that you can claim for all sources is $10,000. The $10,000 limit is reduced if the total cost of IRC Section 179 property placed in service during the year exceeds $200,000. The partnership will give you information on your share of the IRC Section 179 deduction and of the cost of the partnership's IRC Section 179 property so that you can compute this limitation. Your IRC Section 179 deduction is also limited to your taxable income from all of your trades or businesses. See form FTB 3885A, Depreciation and Amortization Adjustments – Individuals and get federal Publication 534, Depreciating Property Placed In Service Before 1987, for more information.

If the IRC Section 179 deduction is a passive activity amount, report it on the applicable line of form FTB 3801. If it is not a passive activity amount, and there is an amount on Schedule K-1 (565), line 9, column (c), enter this amount on Schedule CA (540 or

540NR), line 21f, column B or line 21f, column C, whichever is applicable.

Refer to R&TC Sections 17252.5, 17265, 17266 and 17268 on how to figure the expense deduction for recovery property.

Line 10 – Deductions Related to Portfolio Income

Amounts entered on this line are the deductions that are clearly and directly allocable to portfolio income (other than investment interest expense and expenses from a REMIC). If you have an amount on Schedule K-1 (565), line 10, column (c), enter this amount on Schedule CA (540 or 540NR), line 21f, column B or column C, as applicable. If any of the line 10 amount should not be reported on Schedule CA (540 or 540NR), the partnership will have identified that amount for you.

Line 11 – Other Deductions

Amounts on this line are deductions not included on line 8a through line 10. If there is an amount on Schedule K-1 (565), line 11, column (c), enter this amount on the applicable line of Schedule CA (540 or 540NR).

C Investment Interest Expense

If the partnership paid or accrued interest on debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited.

For more information and the special provisions that apply to investment interest expense, get form FTB 3526, Investment Interest Expense Deduction, and federal Publication 550, Investment Income and Expenses.

Line 12a – Interest Expense on Investment Debts

Enter the amount from column (d) on form FTB 3526 along with your investment interest expense from any other sources. Form FTB 3526 will help you determine how much of your total investment interest is deductible.

Line 12b(1) & Line 12b(2) – Investment Income and Investment Expenses

Use the column (d) amounts to determine the amount to enter on form FTB 3526, line 3.

Caution: The amounts shown on line 12b(1) and line 12b(2) include only investment income and expenses included on line 4 and line 10 of this Schedule K-1 (565). The partnership should attach a schedule that shows the amount of any investment income and expenses included in any other lines of this Schedule K-1 (565). Use these amounts, if any, to adjust line 12b(1) and line 12b(2) to determine your total investment income and total investment expenses from this partnership.

Combine these totals with investment income and expenses from all other sources to determine the amount to enter on form FTB 3526, line 3.

D Credits

If you have credits that are passive activity credits to you, you must complete form FTB 3801-CR (or form FTB 3802 for corporations) in addition to the credit forms referenced. Get the instructions for form FTB 3801-CR (or form FTB 3802) for more information.

Line 13a(1) – Withholding on Partnership Allocated to All Partners

If taxes were withheld from payments to the partnership by another entity, this withholding is allocated to all partners according to partnership interest. Your share is entered on line 13a(1).

Line 13a(2) – Partnership Withholding on Nonresident Partners

If taxes were withheld-at-source on you as a domestic or foreign nonresident partner, the amount of the withholding is entered on line 13a(2).

Line 13a(3) – Total Withholding

The amounts (if any) on line 13a(1) and line 13a(2) are added together to get the total amount of withholding credit you have for the partnership year. If taxes were withheld by the partnership or if there is a pass-through withholding credit from another entity, the partnership must provide you a completed Form 592-B, Nonresident Withholding Tax Statement. You must attach Form 592-B to the front of your California income or franchise tax return to claim the amount withheld. The amount shown on the Form 592-B should be claimed on Form 540NR, California Nonresident or Part-Year Resident Income Tax Return, line 47 or on Form 100, California Corporation Franchise or Income Tax Return, line 32. Schedule K-1 (565) may **not** be used to claim this withholding credit. If the partnership is not on a calendar year, the amount on line 13a(3) may not match the amount on Form 592-B.

Line 13b – Low-Income Housing Credit

Your share of the partnership's low-income housing credit is shown on line 13b, column (d). Any allowable credit is entered on form FTB 3521, Low-Income Housing Credit. The passive activity credit limitations of IRC Section 469, however, may limit the amount of credit you take. Credits from passive activities are generally limited to tax attributable to passive activities.

Caution: You cannot claim the low-income housing credit on any qualified low-income housing project for which any person was allowed any benefit under IRC Section 502 of the Tax Reform Act of 1986.

Line 13c – Other Credits Related to Rental Real Estate Activities

If applicable, the partnership will use this line, through an attached schedule, to give you the information you need to compute credits related to rental real estate activities other than the low-income housing credit.

Line 13d – Credits Related to Other Rental Activities

If applicable, the partnership will use this line, through an attached schedule, to give you the information you need to compute credits related to rental activities other than rental real estate activities.

Line 14 – Other Credits

If applicable, the partnership will use this line, through an attached schedule, to give you the information you need to compute credits related to a trade or business activity.

Examples of credits that may be reported on line 14 (depending on the type of activity they relate to) include:

- Enterprise zone hiring and sales or use tax credit — get form FTB 3805Z.
- Orphan drug credit carryover — get form FTB 3540.
- Employer child care program/contribution credit — get form FTB 3501.
- Program area hiring and sales or use tax credit — get form FTB 3805Z.
- Los Angeles revitalization zone (LARZ) hiring and sales or use tax credit — get form FTB 3806.
- Research credit — get form FTB 3523.
- Commercial solar electric system credit carryover — get form FTB 3540.
- Prison inmate labor credit — get form FTB 3507.

- Low-emission vehicles credit carryover — get form FTB 3540;
- Recycling equipment credit carryover — get form FTB 3540;
- Manufacturers' investment credit — get form FTB 3535;
- Local agency military base recovery area (LAMBRA) credit — get form FTB 3807;
- Salmon and steelhead trout habitat restoration credit — contact the California Department of Fish and Game. Use credit code 200;
- Enhanced oil recovery credit — get form FTB 3546;
- Donated agricultural products transportation credit — get form FTB 3547; and
- Disabled access credit — get form FTB 3548.

Note: The passive activity limitations of IRC Section 469 may limit the amount of credits on line 13b, line 13c, line 13d and line 14. Line 13b, line 13c and line 13d credits are related to the rental activities of the partnership and are passive activity credits to all partners. Line 14 credits are related to the trade or business activities of the partnership, and some are passive activity credits to all limited partners. In general, credits from passive activities are limited to tax attributable to passive activities. Credits on line 14 that may be limited under the passive activity credit rules are the:

- Orphan drug credit carryover;
- Research credit; and
- Low-income housing credit.

You may be able to use line 13d credits against tax on other income. The amount of the useable credits is limited to the deduction equivalent up to $25,000 (net of losses from rental real estate activities deductible against up to $25,000 of other income).

The partnership has included on line 14 your distributive share of net income taxes paid to other states by the partnership. Subject to the limitations of R&TC Section 18006, partners may claim a credit against their individual tax for net income taxes paid by the partnership to another state. The amount of tax paid is required to be supported by a copy of the return filed with the other state and evidence of the payment of the tax. Get Schedule S, Other State Tax Credit, for more information.

E Adjustments and Tax Preference Items

Line 15a through Line 15e column (d) – Use the information reported on line 15a through line 15e, column (d) as well as your adjustments and tax preference items from other sources to complete Schedule P (540), Alternative Minimum Tax and Credit Limitations — Residents; Schedule P (540NR), Alternative Minimum Tax and Credit Limitations — Nonresidents or Part Year Residents; Schedule P (541), Alternative Minimum Tax and Credit Limitations — Fiduciaries; or Schedule P (100), Alternative Minimum Tax and Credit Limitations — Corporations. For additional information, see the federal instructions for Schedule K-1 (1065), Adjustments and Tax Preference Items, line 16a through line 16e.

F Other

Line 16 through Line 19 – See the federal instructions for Schedule K-1 (1065), Other, line 18 through line 21. The partnership should give you a description and the amount of your share for each item applicable to California, in this category.

Line 22 – The partnership will provide supplemental information required to be reported to you on this line.

The partnership may have provided an amount showing your proportionate interest in the partnership's aggregate gross receipts, less returns and allowances on Schedule K-1 (565), line 22. Legislation enacted in 1996 allows a qualified taxpayer to exclude income, positive and negative adjustments and preference items attributable to any trade or business from alternative minimum taxable income. A ''qualified taxpayer'' is defined as an individual, estate or trust that:

- Is the owner of, or has an ownership interest in a trade or business; **and**
- Has gross receipts, less returns and allowances, of less than $1,000,000 during the taxable year from all trades or businesses that the taxpayer is an owner or has an ownership interest (''aggregate gross receipts''). In the case of an ownership interest, you should include only your proportional share of gross receipts of any trade or business from a partnership, S corporation, regulated investment company (RIC), real estate investment trust (REIT) or real estate mortgage investment conduit (REMIC).

You need to add your share of the gross receipts from this partnership to your gross receipts from all other trades or businesses in which you hold an interest to determine if you are a qualified taxpayer.

For purposes of R&TC Section 17062(b)(4), ''gross receipts'' means the sum of gross receipts from the production of business income (within the meaning of subdivisions (a) and (c) of R&TC Section 25120) and the gross receipts from the production of nonbusiness income (within the meaning of subdivision (d) of R&TC Section 25120). ''Proportionate interest'' includes an interest in a pass-through entity. See R&TC Section 17062 for more information.

G Table 1

For nonunitary partners, income data contained in Table 1, Part A (income from real and tangible property) should already be reflected in the appropriate line of column (e) and is merely informational. Unitary partners must reflect such income as from a California source.

The income data contained in Table 1, Part B is not reflected in column (e), because the source of such income must be determined at the partner level. The partner must make a determination whether the nonbusiness intangible income item is from a California source. For further information see General Information, Section E.

H Table 2

If the partner and partnership are engaged in a single unitary business, the partner's share of the partnership's business income is entered in Table 2, Part A. The partner will then add that income to its own business income and apportion the combined business income.

The partner's share of the partnership's payroll, property and sales factors is in Table 2, Part B. The business income in Table 2, Part A is combined with the partner's other business income from the unitary business. The apportionment numerator and denominator data are added to the appropriate numerator and denominator of the partner's payroll, property, and sales factors. For further information see General Information Section E.