Form 1065 Tax Basis Capital Methods

Transactional Approach, Handling Prior Year Noncompliance, Tracking Outside and Debt Basis

WEDNESDAY, MAY 4, 2022, 1:00-2:50 pm Eastern

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Form 1065 Tax Basis Capital Methods

May 4, 2022

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Understanding the Rules for Reporting Tax Capital

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ADVISORY TAX AUDIT

1. OVERVIEW

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Overview

Understanding the terms of art used in this area of taxation:

Assets = Liabilities + Equity

A = L + E

A = Creditor's ownership % + Member's ownership %

A = Debt Basis + Capital Account

Overview

Challenging Terms

"Book" – Can be used to mean the "books and records of the company" no matter what method is used to calculate capital accounts

"Book" – Can be used under Section 704(b) "book" capital accounts. The "book" doesn't mean "books and records". It is a term of art that equates to using FMV at the time of contribution, as opposed to using the member's original cost at the time of contribution. To confuse matters further, Section 704(b) is part of the "tax code". It is a tax concept, even though it uses the term "book". Additionally, there is another tax concept called "tax capital".

Remember, when we use the term "basis" we are traditionally referring to a member's share of liabilities PLUS that member's share of the capital account (or equity). When we use the term "capital account" we are referring to a member's equity, which doesn't include liabilities.

Today's webinar will be concentrating on the term "Tax BASIS Capital Accounts. But, this calculation does not include the debt allocations that increase basis. So, let's use the term "Tax BASED Capital Accounts" or "Tax Capital Accounts" to avoid confusion.

GAAP Basis Capital Accounts

- GAAP capital accounts are maintained based on GAAP rules, as defined by the Financial Accounting Standards Board ("FASB").
- GAAP apply only to partnerships that are publicly traded and registered investment partnerships. However, many partnerships are required by auditors, lenders, or other regulatory bodies to maintain records and accounts in accordance with GAAP. Thus, these partnerships also report their financial statements in accordance with GAAP.

Other Methods for Maintaining Capital Accounts

Other methods of maintaining capital accounts:

- Modified GAAP
  - In practice, some businesses apply GAAP principles but don't strictly adhere to GAAP.
- International Financial Reporting Standards ("IFRS")
  - international standard developed by Int'l Accounting Standards Board ("IASB") used in more than 110 countries around the world, including EU and many Asian and South American countries.

2. TAX CAPITAL

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Tax Capital Accounts

Prior to the new rules, a partner's tax capital account represents its equity as calculated using tax principles, not based on GAAP, Sec. 704(b), or other principles.

- A general principle of subchapter K is that tax allocations follow Sec. 704(b) allocations. Historically, this rule has guided taxpayers in determining how tax capital accounts should be maintained. See Treas. Reg. §§ 1.704-3(b) and 1.704-1(b)(1)(vii).
- **No definition for partnership tax capital accounts in Internal Revenue Code or Regulations thereunder until the new rules we are discussing today.**

Tax Capital Accounts

A partnership maintains both Sec. 704(b) capital accounts and tax capital accounts.

- Differences between Sec. 704(b) and tax capital accounts arise due to different treatment of items for Sec. 704(b) purposes vs. tax purposes.
- Section 704(b) uses FMV of an asset at the time of contribution to the entity.
- Tax Capital uses the "adjusted basis" of an asset to the member at the time of the contribution to the entity. If the asset is non-depreciable, this will generally be the original cost of the asset. If there is a difference between the Section 704(b) value and the adjusted basis of the asset, it is called a Section 704(c) built in gain.
- Examples of items that affect basis differently for tax purposes include depreciation and amortization deductions.
- A partner's tax capital account may go negative as long as the partner has outside basis to cover it (e.g., outside basis from allocations of partnership debt).

Tax Capital vs. Sec. 704(b) Capital Account Calculations

	Tax Basis Capital	Section 704(b) Capital
Increases:	• Tax basis of property contributed, including money • Share of taxable income/gain • Amt. of partnership liabilities assumed by partner (treated as contribution)	• FMV of property contributed, including money • Share of Sec. 704(b) income/gain • Positive Sec. 704(b) revaluations (book-ups)
Decreases:	• Tax basis of distributed property, including money • Share of tax losses/deductions • Amt. of partner liabilities assumed by partnership (treated as distribution)	• FMV of distributed property, including money • Share of Sec. 704(b) losses/deductions • Negative Sec. 704(b) revaluations (book-downs)

Tax Capital Reporting Comparison

Partners in a partnership have traditionally been permitted to report their capital accounts in Box L of Schedule K-1 using one of three methods:

Capital Accounts	Tax Basis	S704(b)	GAAP
Treatment of contributions	Inc. by basis	Inc. by FMV	Who cares?
Treatment of distributions	Decr. by basis	Decr. by FMV	Who cares?
Treatment of income/depreciation	Tax rules	S704(b) rules	Who cares?
Impact of revaluations (“book-ups”)	None	Adjusted	Who cares?

Tax Capital vs. Outside Basis

Outside basis is the member's investment in their **partnership interest**. It is important because:

- A partner's ability to take otherwise allocable partnership losses on an individual income tax return is limited if outside tax basis is zero.
- A partner's outside basis may not go negative.
- If a partner receives a distribution of cash or property that exceeds the partner's outside basis, the excess is taxable income to the partner.
- Gain or loss recognized on a sale of a partnership interest is calculated by reference to the partner's outside basis. If the cash/other consideration exceeds the partner's outside basis, partner recognizes gain on sale of the interest that's reported on his/her individual income tax return.

Outside Basis vs. Tax Capital Calculations

	Item	Outside Basis	Tax Capital
↑	Contributions	Tax	Tax
↓	Distributions	Tax	Tax
↑	Income	Tax	Tax
↑	Tax Exempt Income	Tax	Tax
↓	Deductible losses and expenditures	Tax	Tax
↓	Depreciation/Gain	Tax	Tax
↓	Nondeductible expenses	Tax	Tax
↑	Revaluation gains	N/A	N/A
↑↓	Liabilities – all	Tax	N/A
↑↓	743(b) Adjustment	Tax	N/A

3. CAPITAL ACCOUNT REPORTING ISSUES & REQUIREMENTS

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How did we get here?

Excerpt from 2018 Form 1065 Instructions

If a partnership reports other than tax basis capital accounts to its partners on Schedule K-1 in Item L (that is, GAAP, 704(b) book, or other), and tax basis capital, if reported on any partner's Schedule K-1 at the beginning or end of the tax year would be negative, the partnership must report on line 20 of Schedule K-1, using code AH, such partner's beginning and ending shares of tax basis capital. This is in addition to the required reporting in Item L of Schedule K-1.

How did we get here?

For the 2018 tax year, the IRS provided some flexibility and allowed this negative tax basis information to be reported after the return was filed

For 2019 returns, initial guidance required that all capital accounts be reported on the tax basis

After some pushback, IRS relaxed reporting requirements for 2019 to match those in place for 2018 (report if tax basis capital would be negative), but made clear that tax basis capital account reporting would be the rule in 2020 (Notice 2019-66)

2020 New Guidance
IRS Responds to Notice 2020-43 Comments

Notice 2020-43 dealt with the IRS creating new guidance on how tax capital had to be reported on Sch. K-1. Guidance indicated that the transactional method COULD NOT be used and that one of two proposed methods for reporting tax basis capital – (i) the Modified Outside Basis Method, or (ii) the Modified Previously Taxed Capital Method.

After receiving many comments to Notice 2020-43, the IRS reflected some of those comments in the draft instructions for the Form 1065 released October 22, 2020. The instructions indicate that the only acceptable method to calculate and report tax basis capital is the **transactional method.** However, three alternative methods are available for the purposes of determining tax basis capital as of January 1, 2020.

2020 NEW Guidance
IRS Responds to Notice 2020-43 Comments

In addition to the tax capital reporting methods, the new draft Form 1065 instructions also include updates to Schedule M-2 and Schedule K-1 Item L reporting. These changes create a more homogeneous reporting methodology where all items are reported on the tax basis. Updated instructions for Schedule M-2 limit reconciliations to Schedule L to one circumstance. However, Form 1065 in its entirety will be harder to check for errors. In the past, items from Schedule L, M-1, M-2 and K-1 have tied to each other but that may not be the case moving forward. If a balance sheet is kept on a basis other than tax, Schedule L capital will not tie to Schedule M-2 and, under the right circumstances, the Schedule M-1 income will not tie to Schedule M-2 or Schedules K-1. Preparers and reviewers should take time in the coming months to familiarize themselves with the new forms and instructions.

Transactional Tax Capital- Increases

The Tax Basis Method applies a transactional approach, whereby capital accounts are **increased** for:

- The amount of cash and adjusted basis of property contributed (net of liabilities assumed by the partnership),
- Current-year income or gains, including tax-exempt income items,
- The partner's distributive share of the excess of the tax deductions for depletion (other than oil and gas depletion) over the adjusted tax basis of the property subject to the depletion,
- The partner's share of any increase in the adjusted tax basis of partnership property under Section 734(b), and
- Other increases, determined in a manner consistent with calculating a partner's adjusted tax basis in its partnership interest (without regard to partnership liabilities), taking into account the rules and principles of Sections 705, 722, 733, and 742, which provide specific rules around calculating a partner's tax basis.

Transactional Tax Capital -Decreases

Capital accounts are **decreased** for:

- The amount of cash and adjusted basis of property distributed (net of liabilities assumed by the partner),
- Current-year deductions or losses, including non-deductible items,
- The partner's distributive share of tax deductions for depletion of any partnership oil and gas property, but not exceeding the partner's share of the adjusted tax basis of that property,
- The partner's share of any decrease to the adjusted tax basis of partnership property under Section 734(b), and
- Other decreases, determined in a manner consistent with calculating a partner's adjusted tax basis in its partnership interest (without regard to partnership liabilities), taking into account the rules and principles of Sections 705, 722, 733, and 742, which provide specific rules around calculating a partner's tax basis.

Transactional Tax Capital Section 743(b) adjustments

In general, partnerships should calculate tax basis capital accounts in a manner that is generally consistent with determining a partner's outside basis in its partnership interest (exclusive of liabilities).

However, the instructions provide that Section 743(b) adjustments — which are adjustments to the basis of partnership property as a result of a sale/transfer of interest that are specially allocated to the transferee partner only — should not be included in tax basis capital accounts.

To the extent Section 743(b) adjustments previously were reported in tax basis capital accounts, they must be removed using the "Other Increases/Decreases" line.

Transactional Tax Capital-Section 734(b) adjustments

Section 734(b) adjustments, which are adjustments to the basis of partnership property as a result of distributions, are common basis partnership items not specially allocated to a specific partner; they continue to be included in the calculation of tax basis capital accounts.

Transactional Tax Capital-Issues with Schedule K-1s

Sometimes an entity marked “Tax” on prior Schedule K-1s, indicating that the capital accounts reported are tax capital accounts.

These K-1s, although marked “tax”, do not report the correct tax capital accounts.

The issue usually involves the treatment of any temporary differences reported on Schedule M-1.

Example of incorrect "Tax Capital" as reported on Sch K1s

Schedule M-1 **Reconciliation of Income (Loss) per Books With Income (Loss) per Return**
Note: The partnership may be required to file Schedule M-3. See instructions.

1 Net income (loss) per books.	69,901.	6 Income recorded on books this year not included on Schedule K, lines 1 through 11 (itemize): a Tax-exempt interest $	
2 Income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on books this year (itemize):			
3 Guaranteed payments (other than health insurance).		7 Deductions included on Schedule K, lines 1 through 13d, and 16p, not charged against book income this year (itemize): a Depreciation $	
4 Expenses recorded on books this year not included on Schedule K, lines 1 through 13d, and 16p (itemize): a Depreciation $ b Travel and entertainment $		8 Add lines 6 and 7.	
SEE STATEMENT 4	660.	9 Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5 . .	70,561.
5 Add lines 1 through 4	70,561.		

```
SCHEDULE M-1 - LINE 4B - EXPENSES RECORDED ON BOOKS BUT NOT DEDUCTED
=====================================================================
RELATED PARTY INTEREST                                            660.
                                                         ---------------
TOTAL OTHER EXPENSES RECORDED ON BOOKS BUT NOT DEDUCTED           660.
                                                         ===============
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ITEM L - PARTNER CAPITAL ACCOUNT ANALYSIS
=========================================
ITEM L OF THE PARTNER'S SCHEDULE K-1 IS KEPT ON THE TAX BASIS
```

Establishing Beginning of the Year Capital Accounts to Comply with Requirements

A partnership that historically has kept books and records on the Tax Basis Method must report each partner's beginning tax basis capital account using the Tax Basis Method. However, if a partnership needs to establish beginning tax basis capital accounts because it has not historically tracked tax basis capital, it may use one of the following to establish the partners' initial capital accounts:

1. Modified Previously Taxed Capital Method;
2. Modified Outside Basis Method; or
3. Section 704(b) Method.

It is prudent to note that the above 3 alternative methods to calculate BOY tax capital can not be used to calculate EOY tax capital accounts in the transition year. Once BOY capital accounts are converted to tax basis, the transactional method must be used to establish tax capital moving forward.

Establishing Beginning of the Year Capital Accounts to Comply with Requirements

Important notes:

1. You must use the same method for all partners
2. You must attach a statement to the partner's K-1 indicating the method used to determine BOY capital account
3. If using Modified Previously Taxed Capital Method, more information is needed, including the method used to determine the net liquidity value of the partnership

Modified Outside Basis Method

Modified Outside Basis Method

Under the "Modified Outside Basis Method" the partner's tax capital is determined as follows:

- If the partner maintains this information, it does the necessary calculations and provides to the partnership
- Either the partnership or the partner determines the OUTSIDE BASIS in the partnership interest
- Subtract the partner's Sec. 752 share of liabilities from that outside basis to arrive at the partner's tax capital amount

Partners may provide their own outside basis to the partnership, in writing, within 30 days of year-end. Partnership can rely on this information unless clearly erroneous.

Example using Modified Outside Basis to determine BOY Tax Basis Capital

AB form partnership AB, LLC. A contributes land with a FMV of $1,000 and a tax basis of $400. B Contributes $1,000 cash. Profits and losses are split 50/50. In year 1, the partnership reports $200 of income. Balance sheet at contribution would look like this:

Assets	Book	Tax		Liabilities	Book	Tax
Cash (B)	1,000	1,000		Loan	-	-
Land (A)	1,000	400			-	-
	2,000	1,400		Capital		
				A	1,000	400
				B	1,000	1,000
					2,000	1,400
					2,000	1,400

Example using Modified Outside Basis to determine BOY Tax Basis Capital

At the end of year 1, the balance sheet would look as follows:

Assets	Book	Tax		Liabilities	Book	Tax
Cash	1,200	1,200		Loan	-	-
Land	1,000	400			-	-
	2,200	1,600		Capital		
				A	1,100	500
				B	1,100	1,100
					2,200	1,600
					2,200	1,600

Example using Modified Outside Basis to determine BOY Tax Basis Capital

In year 2, the company borrows $500 to acquire additional land and reports no income/loss. The balance sheet now looks like this:

Assets	Book	Tax		Liabilities	Book	Tax
Cash	1,200	1,200		Loan	500	500
Land	1,500	900			500	500
	2,700	2,100		Capital		
				A	1,100	500
				B	1,100	1,100
					2,200	1,600
					2,700	2,100

Example using Modified Outside Basis to determine BOY Tax Basis Capital

In year 3, you pick up the partnership as a new client and notice that both the balance sheet and capital accounts are reported using the "book" amounts. Luckily, Partner A has been maintaining their own outside basis and indicates that their outside basis is $1,000 at the end of Year 2. Using the Modified Outside Basis Method, we can determine Partner A's BOY tax capital as follows:

Outside basis in partnership interest (Per Partner A)	$1,000
Less: Allocable share of partnership liabilities	($500)
BOY Tax Basis Capital Account	$500

Modified Previously Taxed Capital Method

Modified Previously Taxed Capital

Under the "Modified Previously Taxed Capital Method," the partnership must calculate a hypothetical liquidation of the partnership using FMV, GAAP or Sec. 704(b).

Previously taxed capital is equal to:

- The amount of cash the partner would receive on liquidation, plus
- The amount of tax loss allocated to the partner from the hypothetical sale, less
- The amount of tax gain that would be allocated to the partner from the hypothetical sale.

A partnership using this method must include a statement to this effect and must also disclose the method used to determine the net liquidity value of the partnership.

Modified Previously Taxed Capital Method - Example

Account	Tax	FMV
Cash	$500	$500
Inventory	$1,000	$1,000
Equipment	$500	$500
Land	$1,000	$8,000
Total Assets	$3,000	$10,000
Debt	$5,000	$5,000
Partner A (50%)	($1,000)	$2,500
Partner B (50%)	($1,000)	$2,500

Modified Previously Taxed Capital Method - Example

Under the Modified Previously Taxed Capital Method, tax capital would be equal to:

Account	Partner A	Partner B
Amount of Cash to Distribute		
($10,000 - $5,000)	$2,500	$2,500
Plus: Loss Allocable to Partner	$0	$0
Less: Gain Allocable to Partner		
($10,000 - $3,000)	($3,500)	($3,500)
Modified Previously Taxed Capital	($1,000)	($1,000)

Example Using the Modified Previously Taxed Capital Method to calculate BOY Capital Accounts

Referring back to our earlier example, after Year 2 the balance sheet now looks like this:

Assets	Book	Tax		Liabilities	Book	Tax
Cash	1,200	1,200		Loan	500	500
Land	1,500	900			500	500
	2,700	2,100		Capital		
				A	1,100	500
				B	1,100	1,100
					2,200	1,600
					2,700	2,100

Example Using the Modified Previously Taxed Capital Method to calculate BOY Capital Accounts

If we were to use the Modified Previously Taxed Capital Method to determine the BOY tax capital for Year 3, we would calculate as follows:

	Partnership			Partner A	Partner B
Gain	$600		Gain (704(c))	$600	$0
Cash	$2,700				
Pay debt	($500)				
Cash to distribute	$2,200			$1,100	$1,100

Example Using the Modified Previously Taxed Capital Method to calculate BOY Capital Accounts

If we were to use the Modified Previously Taxed Capital Method to determine the BOY tax capital for Year 3, we would calculate as follows:

Description	Partner A	Partner B
Amount of cash each partner would receive	$1,100	$1,100
Plus: Loss allocable to each partner	$0	$0
Less: Gain allocable to each partner	($600)	($0)
Modified Previously Taxed Capital	$500	$1,100

Section 704(b) Method

Section 704(b) book Method

The Section 704(b) Method calculates beginning tax basis capital accounts equal to a partner's Section 704(b) capital account, less that partner's share of Section 704(c) built-in gains or losses.

Section 704(c) accounts for the difference between fair market value and tax basis of the assets contributed by the partner to the partnership and the partner's share of the gain or loss in assets revalued by the partnership.

Thus, the Section 704(b) Method also generally yields a tax basis capital account for each partner that is equal to its share of the partnerships inside basis.

Example Using the Section 704(b) Method to calculate BOY Capital Accounts

Referring back to our earlier example, after Year 2 the balance sheet looks like this:

Assets	Book	Tax		Liabilities	Book	Tax
Cash	1,200	1,200		Loan	500	500
Land	1,500	900			500	500
	2,700	2,100		Capital		
				A	1,100	500
				B	1,100	1,100
					2,200	1,600
					2,700	2,100

Example Using the Section 704(b) Method to calculate BOY Capital Accounts

Using the 704(b) Method (and assuming Book = 704(b) in this case), we would take the 704(b) capital accounts at the beginning of Year 3 and adjust for any 704(c) gain/loss as follows:

	Partner A	Partner B
Sec. 704(b) capital	$1,100	$1,100
Less: 704(c) BIG	($600)	($0)
BOY Capital – 704(b) Method	$500	$1,100

Additional Issues

Reporting Issues/Requirements

New tax basis reporting requirements have been problematic for many.

- administrative burdens
- uncertainty
- lack of relevant definitions in code and regs

Some partnerships may have been in existence for many years and may have had a taxpayer as a partner for decades. Prior to the new rules, a partner—not the partnership—was responsible for maintaining a calculation of his tax basis in the partnership. If the partnership or tax preparer had not previously kept a calculation of each partner's tax basis, then catching up the calculation to 2020 could be a cumbersome process.

Important to begin the process of transitioning to accounting for partners' tax basis as early as possible.

Penalty Relief

Notice 2021-13 issued on January 19, 2021

- Taxpayers can “show ordinary and prudent business care” to follow 2020 Form 1065 instructions to report beginning capital account balances
- Penalty relief from:
  - §6698 failing to file a return or report at the time prescribed therefor, or for filing a return or a report that fails to show the information required under section §6031
  - §6721 failure to file an information return on or before the required filing date, and for any failure to include all of the information required to be shown on the return or the inclusion of incorrect information
  - §6722 failure to furnish a payee statement on or before the date prescribed therefor to the person to whom such statement is required to be furnished, and for any failure to include all of the information required to be shown on a payee statement or the inclusion of incorrect information

Penalty Relief

Notice 2021-13 does not give preparers a free pass to hastily put any number on tax capital line

What are the implications on BBA audits? Could misreported capital accounts lead to imputed underpayments?

Reporting Issues/Requirements

The changes to the Form 1065 instructions are part of a larger effort by the IRS to increase transparency and disclosure on partnership tax returns. The new draft instructions help create a flexible set of rules that should make compliance practical for most partnerships.

Any comments or concerns regarding the new requirements are no longer requested by the IRS but general comments can always be sent to the IRS at https://www.irs.gov/forms-pubs/comment-on-tax-forms-and-publications.

Further Guidance Necessary

The 2020 partner tax capital rules still need further guidance. For example, is it ok the different methods yield different results?

Some of the clarifications are attributable to the following Schedule M-1 adjustments:

Treatment of Auto Lease Inclusion

Treatment of Imputed Interest

In the Real World

The above discussed rules are very complex and yet very nuanced.

The important thing to remember is that absent any Section 743(b) adjustments and any Section 704(c) built in gains, tax capital under any of the new methods will likely result in the same amount.

Flow of forms and review changes substantially

Reviewing a 1065

21	Partners' capital accounts				
22	Total liabilities and capital				

Schedule M-1 **Reconciliation of Income (Loss) per Books With Income (Loss) per Return**

Note: The partnership may be required to file Schedule M-3. See instructions.

1	Net income (loss) per books		6	Income recorded on books this year not included on Schedule K, lines 1 through 11 (itemize):	
2	Income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on books this year (itemize):		a	Tax-exempt interest $	
3	Guaranteed payments (other than health insurance)		7	Deductions included on Schedule K, lines 1 through 13d, and 16p, not charged against book income this year (itemize):	
4	Expenses recorded on books this year not included on Schedule K, lines 1 through 13d, and 16p (itemize):		a	Depreciation $	
a	Depreciation $		8	Add lines 6 and 7	
b	Travel and entertainment $		9	Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5	
5	Add lines 1 through 4				

Schedule M-2 **Analysis of Partners' Capital Accounts**

1	Balance at beginning of year		6	Distributions: a Cash	
2	Capital contributed: a Cash			b Property	
	b Property		7	Other decreases (itemize):	
3	Net income (loss) per books				
4	Other increases (itemize):		8	Add lines 6 and 7	
5	Add lines 1 through 4		9	Balance at end of year. Subtract line 8 from line 5	

Form **1065** (2020)

All items on M-2 must now be tax basis

Reporting the Transition

L	Partner's Capital Account Analysis
Beginning capital account . . .	$
Capital contributed during the year . .	$
Current year net income (loss) . . .	$
Other increase (decrease) (attach explanation)	$
Withdrawals & distributions . . .	$ ( )
Ending capital account	$

Must report beginning capital on tax basis and disclose which method was used to determine beginning tax capital.

Additionally, if MPTC method used, must disclose method used to determine net liquidity value.

Tax preparers need to make a decision if they want to show an additional disclosure of how the prior year ending capital on a different basis was converted to tax basis

K-1 Reporting of §704(c) Items

M Did the partner contribute property with a built-in gain or loss?

☐ **Yes** ☐ **No** If "Yes," attach statement. See instructions.

N **Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)**

Beginning . . . . . $ _____

Ending . . . . . $

Item M. Did the Partner Contribute Property With a Built-in Gain or Loss?

Check the appropriate box to indicate whether the partner contributed property with a built-in gain or loss during the tax year. If the "Yes" box is checked, attach a statement that contains the following information.

- A description of each property the partner contributed.
- The date the property was contributed.
- The amount of the property's built-in gain or loss.

Item N. Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

For item N, the partnership should report the partner's share of net unrecognized section 704(c) gains or losses, both at the beginning and at the end of the partnership's tax year. Solely for purposes of completing item N, the section 704(c) gain or loss is the partner's share of the net (net means aggregate or sum) of all unrecognized section 704(c) gain or loss in partnership property, including section 704(c) gain or loss arising from revaluations of partnership property. See Notice 2019-66 for more information.

K-1 Reporting of §704(c) Items

20	Other information
A	
A	

Section 704(c) information (code AA). For partnerships other than publicly traded partnerships, if a partner's taxable income or loss on any line item on Schedule K-1 (Form 1065) includes an allocation of any income or deduction item determined by applying section 704(c), include the sum of such income and deduction items here.

Questions????