



# TaxNewsFlash

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## Changes proposed in 2019 draft instructions for Form 1065 and Schedule K-1

The IRS has released updated versions of the 2019 draft instructions for Form 1065 and its Schedule K-1.

- Read the [2019 draft instructions for Form 1065](#) [PDF 941 KB] *U.S. Return of Partnership Income*
- Read the [2019 draft instructions for Schedule K-1](#) [PDF 395 KB] *Partner's Share of Income, Deductions, Credits, etc.*

These draft instructions for Form 1065 were posted with a “watermark” date of December 23, 2019, and the draft instructions for Schedule K-1 have a “watermark” date of December 26, 2019. Both include cautionary language that they are not to be relied upon for filing purposes and are subject to change and to OMB approval before being officially released.

The 2019 draft instructions for Form 1065 and Schedule K-1 would update the requirements for capital account reporting for the 2019 tax year to incorporate the provisions of [Notice 2019-66](#) [PDF 94 KB] which, among other things, delayed the requirement to report tax basis capital accounts until tax year 2020. Read [TaxNewsFlash](#)

According to Notice 2019-66 and the 2019 draft instructions, partnerships must report partner capital for 2019 consistent with the reporting requirements for the 2018 Form 1065 (or Form 8865, as applicable) using any method available in 2018 (i.e., tax basis, section 704(b), GAAP, or other). Furthermore, partnerships that report partner capital using a method other than tax basis must continue to comply with the requirement in the 2018 Form 1065 instructions with respect to negative tax basis capital. The IRS has provided a set of [“frequently asked questions” \(FAQs\)](#) concerning Form 1065 and specifically concerning “Negative Tax Basis Capital Account Reporting,” as guidance on the calculation of a partner’s tax basis capital for this purpose.

The 2019 draft instructions for Form 1065 and Schedule K-1 also clarify the reporting for income, gain, deduction or loss items relating to section 743(b) adjustments.

The deduction or loss resulting from a partner's total net positive section 743(b) adjustments is to be reported on Line 11F.

- The income or gain resulting from a partner's total net negative section 743(b) adjustments is to be reported on Line 13V.

This change clarifies the amounts reported on Lines 11F and 13V from the prior version of the 2019 draft instructions released on December 9, 2019, which had seemingly incorrectly referred to income and gain being associated with positive section 743(b) adjustments and to deductions and losses being associated with negative section 743(b) adjustments. Note that the description for Lines 11F and 13V in the "What's New" section of the 2019 instructions was not updated and reflects the prior version of the 2019 draft instructions. It is unclear why deductions/losses are to be reported on an income line and gains/income on a deductions line.

The 2019 draft instructions also include clarifying language for reporting beneficial owners of disregarded entities. Specifically, if the partner is an individual retirement account (IRA), the partnership will enter the identifying number of the custodian of the IRA; and in the case of a disregarded entity, the partnership will enter the taxpayer identification number of the beneficial owner in Item E as well as the beneficial owner's address in Item F.

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