



TaxNewsFlash

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IRS releases updated instructions for Form 1065 (2019)

The IRS has posted an updated final version of the instructions for Form 1065 for 2019.

Read the [2019 instructions for Form 1065, U.S. Return of Partnership Income](#) [PDF 762 KB]

These instructions (dated February 13, 2020) were posted on the IRS website on February 19, 2020.

Clarifications provided

The updated instructions for Form 1065 include some needed clarifications to the prior version including:

- Updates on disregarded entity partner reporting
- Updates for how the current year income/loss effect of section 743(b) adjustments are reported
- Clarification on the detail needed for section 704(c) reporting on Line 20AA, including two examples

The updated instructions include additional clarity concerning the reporting for a disregarded entity partner (DE Partner). The instructions provide that the partnership must make “reasonable attempts” to obtain a DE Partner’s tax identification number (TIN). If the partnership is unsuccessful in obtaining such information, the partnership is to report the TIN of the DE Partner as “unknown.” Alternatively, if the DE Partner does not have a TIN, the partnership is to report the TIN of the DE Partner as “none.” The instructions also clarify that where a DE Partner is the legal owner of a partnership interest, the entity type of the beneficial owner is to be reported in Item 11.

Further, the instructions update how to report the current year income, gain, deduction or loss items relating to section 743(b) adjustments.

- Line 11F – *Section 743(b) positive income adjustments*: Partner’s share of net positive income resulting from all section 743(b) adjustments.

- Line 13V – *Section 743(b) negative income adjustments*: Partner’s share of net negative income resulting from all section 743(b) adjustments.

This change clarifies the prior version of the 2019 final instructions (released on December 26, 2019) that provided for reporting net deductions and losses on Line 11F, an income line, and net income and gains on Line 13V, a deduction line. The updated instructions provide that publicly traded partnerships (PTPs) are exempt from the Line 11F/Line 13V reporting. Read [TaxNewsFlash](#)

In addition, the updated instructions expand on the explanation for what detail is to be reported on Line 20AH with respect to section 743(b) basis adjustments. Under the updated instructions, a partnership is required to attach a statement to the Schedule K-1 showing each remaining section 743(b) adjustment, net of any cost recovery for such partner. Each section 743(b) adjustment is to be broken out for each asset to which the section 743(b) adjustment relates. The instructions provide, however, that a “reasonable grouping by asset category” is acceptable, provided that the grouping is not less detailed than the asset categories listed on Schedule L of Form 1065 (i.e., the balance sheet). When multiple section 743(b) basis adjustments exist, the partnership may group the basis adjustments by asset category.

The instructions also expand on the additional information required to be provided in relation to how items of income, gain, loss, and deduction are affected by the application of section 704(c). Specifically, the instructions to Line 20AA require the partnership to disclose the sum of the income and deduction items stemming from an allocation determined under section 704(c). The updated instructions also incorporate two examples illustrating the reporting. The first example is for a single asset using the traditional method, and the second example contemplates two assets—one using the traditional method and the other the remedial method.

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