*New Jersey Division of Taxation*

TAX TOPIC

# Income From Partnerships

*Bulletin GIT-9P*

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This document is designed to provide guidance to taxpayers and is accurate as of the date issued. Subsequent changes in tax law or its interpretation may affect the accuracy of this publication.

## Introduction

Partnership income is reported as one category of income on the partner's New Jersey income tax return rather than in respective categories. For example, interest, dividends, rents, gains, or losses earned by a partnership are combined with Federal ordinary income (loss) to arrive at New Jersey partnership income (loss).

This bulletin explains how partners determine the proper amount to report as distributive share of partnership income on their New Jersey income tax returns when:

1. The taxpayer receives an appropriate Schedule NJK-1, Form NJ-1065 from his or her partnership(s).
2. The taxpayer does not receive a Schedule NJK-1 from his or her partnership(s).
3. The taxpayer was a resident of New Jersey during only part of the taxable year.

It also describes how to calculate the basis of ownership in a partnership for the purpose of calculating gain (loss) from the disposition of a partnership interest.

The forms, worksheets, and examples in this publication are for tax year 2014 and are provided for illustration only. They may not reflect current information for other tax years.

Tax Topic Bulletin **GIT-9S**, *Income From S Corporations,* explains the proper procedure for reporting income from S corporations.

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# General Information

## Definitions

***Partnership*** means and shall include a syndicate, group, pool, joint venture, and any other unincorporated organization through or by means of which any business, financial operation, or venture is carried on and which is not a corporation, trust, or estate within the meaning of the New Jersey Gross Income Tax Act. Only entities that qualify for and elect to be treated as a partnership for Federal tax purposes (for example limited liability companies and limited liability partnerships) and are in business, shall be treated as partnerships under the New Jersey Gross Income Tax Act.

***Partner*** means any owner of a partnership interest and shall include any taxpayer subject to New Jersey income tax that is a member of a partnership or other unincorporated entity taxed as a partnership. A partner cannot be an employee of the partnership for purposes of determining distributive share of partnership income.

## Filing Requirements

Every partnership having a New Jersey resident partner or deriving income (loss) from New Jersey sources must file a New Jersey partnership return, Form NJ-1065. A partnership that has 10 or more partners must file its Form NJ-1065 electronically.

The partnership is required to issue Schedule NJK-1, Form NJ-1065 to each member showing that particular partner's distributive share of the partnership's income (loss), pension, and net gain (loss) from disposition of assets as a result of a complete liquidation.

If your partnership did not provide you with the required Schedule NJK-1, see **question 2** on page 9.

## Payment Requirements

Each entity that is classified as a partnership for Federal income tax purposes:

- Having any income or loss derived from New Jersey sources that has more than two owners may be required to make a payment of $150 for each owner of an interest in the entity, up to a maximum of $250,000. A 50% installment payment is also required, unless it is the partnership's final year.
- May be required to remit a payment of tax on behalf of all nonresident partners. The Division of Taxation will credit the tax paid by the partnership to the accounts of its nonresident partners.

  The payment of tax on behalf of all nonresident partners shall be made quarterly in the amount of 25% of the tax on or before the 15th day of the fourth, sixth, and ninth month of the privilege period, and on or before the 15th day of the first month following the close of the privilege period. These installment payments will be credited to the accounts of the nonresident partners in proportion to each nonresident partner's share of ownership and are deemed to have been paid by the partner at that time in order to satisfy any individual estimated tax requirements of the partners.

## Adjustments to Income

Partners may deduct certain qualified unreimbursed business expenses from the distributive share of partnership income amount(s) reported

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to them by their partnership(s) on Schedule NJK-1 (or from the amount determined on Reconciliation Worksheet A). After the appropriate adjustments (if any) have been made to each distributive share of partnership income amount and the adjusted amount(s) entered on Schedule NJ-BUS-1, the net amount(s) are totaled and entered on the partner's personal New Jersey resident return (**Form NJ-1040**), nonresident return (**Form NJ-1040NR**), or fiduciary return (**Form NJ-1041**). If the adjusted net total is zero or less, make no entry on Form NJ-1040, or enter zero in Columns A and B, Form NJ-1040NR or on Form NJ-1041. See *Losses* below.

To qualify as deductible, costs or expenses must meet *all* of the following criteria:

- Incurred primarily and directly in the pursuit of business income; and
- Incurred as common and accepted practice in that field of business; and
- Required for and appropriate to the intended business purpose; and
- Reasonable in amount in relation to the intended business purpose.

Only ordinary business costs and expenses are deductible. No deduction is allowed for expenses that were not incurred in the conduct of the trade or business, nor is a deduction allowed for any taxes based on income. The determination of whether a business expense is ordinary is based on the facts and circumstances of the expense. The burden is on the taxpayer to demonstrate to the satisfaction of the Division of Taxation that the cost or expense is deductible.

*Investment interest expense* incurred by a partner to acquire a partnership interest may be deducted from distributive share of partnership income.

New Jersey residents may deduct the full amount of qualified unreimbursed business expenses from their distributive share of partnership income. Nonresidents may also deduct the full amount of qualified unreimbursed business expenses from their distributive share of partnership income from *all sources*. However, nonresidents must prorate the amount of their qualified unreimbursed expenses for each partnership to determine the portion attributable to (and deductible from) their distributive share of partnership income derived from New Jersey sources. The portion of qualified expenses deductible from New Jersey source income is calculated by multiplying the full amount of the expense by the ratio of New Jersey source partnership income to total partnership income:

$$\frac{\text{Line 4, Column B, Schedule NJK-1}}{\text{Line 4, Column A, Schedule NJK-1}}$$

When adjustments are made to the amount of distributive share of partnership income reported on Schedule NJK-1 or Reconciliation Worksheet A, the partner must enclose a separate schedule detailing the nature and amount of each expense deducted with the New Jersey resident, nonresident, or fiduciary return along with a copy of all Schedule NJK-1(s) and/or Reconciliation Worksheet A(s).

## Losses

Under the New Jersey Gross Income Tax Act, losses in one category of income, such as distributive share of partnership income, may not be used to offset income in a different category; nor may losses be carried forward or back from

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one year to another on the partner's income tax return.

If a loss is reported to the partner by the partnership or if a loss occurs as a result of adjustments for qualified unreimbursed business expenses, the partner will enter the loss for that partnership on Schedule NJ-BUS-1 and use it to offset income from other partnerships. If the net amount from all partnerships listed on Schedule NJ-BUS-1 is a loss, the partner should make no entry on their New Jersey income tax return in the category "Distributive Share of Partnership Income."

**NOTE:** If more than one partnership has a loss and net losses exceed income, see **question 5** on page 19.

## Basis

Making annual adjustments to your New Jersey basis in a partnership will allow you to accurately determine your gain/loss when you sell or otherwise dispose of your interest in the entity. For more information on determining the basis in your partnership, see **question 6** on page 21.

## Disposition of a Partnership Interest

If you disposed of your interest in a partnership during the tax year, see **question 7** on page 22 for details on how to determine and report the gain (loss) from the disposition.

## QUESTION 1 What do I do with the information on Schedule NJK-1, Form NJ-1065 that my partnership(s) gave me?

## Residents

New Jersey resident individuals, estates, and trusts are subject to the State's income tax on their distributive share of partnership income (loss) regardless of the source from which the income was derived. Residents with income from a partnership must:

1. Deduct any allowable unreimbursed business expenses from the amount that appears in Column A, Schedule NJK-1, **Form NJ-1065** as "Distributive Share of Partnership Income (loss)." See ***Adjustments to Income*** on page 2.
2. Enter the adjusted amount on Schedule NJ-BUS-1 of **Form NJ-1040** or **Form NJ-1041** in the "Distributive Share of Partnership Income" section.
3. Enter the amount from Schedule NJ-BUS-1 on Form NJ-1040 or Form NJ-1041 on the line for "Distributive Share of Partnership Income." If this amount is zero or less, make no entry on Form NJ-1040, or enter zero on Form NJ-1041. See ***Losses*** on page 3.

**Example 1** on page 7 illustrates the proper procedure for determining the amount to report as distributive share of partnership income.

***Multiple Partnerships*** – Taxpayers with income (loss) from more than one partnership must:

1. Deduct any allowable unreimbursed business expenses from the amount that appears in Column A, Schedule NJK-1, **Form NJ-1065** as "Distributive Share of Partnership Income

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(loss)" for each partnership. See ***Adjustments to Income*** on page 2.

2. Enter the adjusted amounts from *all* partnerships on Schedule NJ-BUS-1 of **Form NJ-1040** or **Form NJ-1041** in the "Distributive Share of Partnership Income" section.
3. Add the adjusted amounts on Schedule NJ-BUS-1, netting gains with losses, and enter the total on Form NJ-1040 or Form NJ-1041. If the total is zero or less, make no entry on Form NJ-1040, or enter zero on Form NJ-1041. See ***Losses*** on page 3.

The amount reported in Column A, Schedule NJK-1, Form NJ-1065 as "Net Gain (loss) from Disposition of Assets as a Result of a Complete Liquidation" represents the total amount of taxable gain or loss from that entity. Enter this amount on Form NJ-1040 or Form NJ-1041 on the line for "Net gains or income from disposition of property."

## Nonresidents

Partners who reside outside of New Jersey and partners that are nonresident estates or trusts are also subject to this State's income tax on their distributive share of partnership income, but only to the extent the income is derived from sources within New Jersey.

Nonresident partners must include their distributive share of partnership income from all sources on their New Jersey income tax return as follows:

1. Deduct any allowable unreimbursed business expenses from the amount that appears as "Distributive Share of Partnership Income (loss)" in Column A, Schedule NJK-1, Form NJ-1065. See ***Adjustments to Income*** on page 2.
2. Enter the adjusted amount on Schedule NJ-BUS-1 of **Form NJ-1040NR** (nonresident individual partners) or **Form NJ-1041** (nonresident estate or trust partners) in the "Distributive Share of Partnership Income" section.
3. Enter the amount from Schedule NJ-BUS-1 in Column A, Form NJ-1040NR or on Form NJ-1041 on the line for "Distributive Share of Partnership Income." If this amount is zero or less, enter zero. See ***Losses*** on page 3.
4. Deduct the *prorated* amount of any allowable unreimbursed business expenses from the amount that appears in Column B, Schedule NJK-1. This adjusted amount is the portion of total distributive share of partnership income allocated to New Jersey and actually subject to tax.
5. Enter the adjusted New Jersey amount in Column B, Form NJ-1040NR (nonresident individual partners), or on Schedule E, Form NJ-1041 (nonresident estate or trust partners). If this amount is zero or less, enter zero.

**Example 1** on page 7 illustrates the proper procedure for determining the amount to report as distributive share of partnership income.

Nonresident partners must enter the share of New Jersey tax reported by the partnership in Part III, Schedule NJK-1, Form NJ-1065 on their New Jersey income tax return in order to claim credit for tax paid on their behalf by the partnership. Nonresident individual partners must enter the amount on Form NJ-1040NR and nonresident estate or trust partners must enter the amount on Form NJ-1041.

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***Multiple Partnerships*** – Nonresident taxpayers with income (loss) from more than one partnership must:

1. Deduct any allowable unreimbursed business expenses from the amount that appears as "Distributive Share of Partnership Income (loss)" in Column A, Schedule NJK-1, Form NJ-1065 for each partnership. See ***Adjustments to Income*** on page 2.
2. Enter the adjusted amounts from *all* partnerships on Schedule NJ-BUS-1 of **Form NJ-1040NR** (nonresident individual partners) or **Form NJ-1041** (nonresident estate or trust partners) in the "Distributive Share of Partnership Income" section.
3. Add the adjusted amounts on Schedule NJ-BUS-1, netting gains with losses, and enter the total in Column A, Form NJ-1040NR or on Form NJ-1041. If the total is zero or less, enter zero. See ***Losses*** on page 3.
4. Deduct the *prorated* amount of any allowable unreimbursed business expenses for each partnership from the distributive share of partnership income (loss) from *New Jersey sources* (Column B of each Schedule NJK-1).
5. Add these adjusted amounts, netting gains with losses, and enter the total in Column B, Form NJ-1040NR or on Schedule E, Form NJ-1041. If the total is zero or less, enter zero.

Nonresident partners must include the amount of income reported by the partnership as "Net Gain (loss) from Disposition of Assets as a Result of a Complete Liquidation" in Column A, Schedule NJK-1, Form NJ-1065 on their New Jersey income tax return in order to determine the nonresident's income from all sources. This amount must be entered as "Net gains or income from disposition of property" in Column A, Form NJ-1040NR for nonresident individual partners or Form NJ-1041 for nonresident estate or trust partners. The amount from Column B, Schedule NJK-1 must be entered in Column B, Form NJ-1040NR for nonresident individual partners or on Schedule E, Form NJ-1041 for nonresident estate or trust partners. This is the amount from New Jersey sources on which the nonresident partner will be taxed.

Nonresident partners with income (loss) from more than one partnership must add the separate amounts of share of New Jersey tax reported by the partnerships (Part III of each Schedule NJK-1). Nonresident individual partners must enter the total on Form NJ-1040NR, and nonresident estate and trust partners must enter the total on Form NJ-1041 in order to claim credit for tax paid on their behalf by the partnerships.

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**EXAMPLE 1**
A partnership supplied the following Schedule NJK-1 to one of its partners:

**Schedule**
**NJK-1**
(Form NJ-1065)

**PART II Income Information**

| Income Classifications | A. Total Distribution | NJ-1040 Filers Enter Amounts on Line Shown Below | B. New Jersey Source Amounts | NJ-1040NR Filers |
|---|---|---|---|---|
| 1. Partnership Income (loss) | 18,000 | | 9,000 | |
| 2. Net Guaranteed Payments | -0- | | -0- | |
| 3. Partner's 401(k) Contribution | 2,577 | | 1,288 | |
| 4. Distributive Share of Partnership Income (loss) (Line 1 plus Line 2 minus Line 3) | 15,423 | Line 20, Page 2 | 7,712 | Line 22, Page 1 |
| 5. Pension | | Line 19, Page 2 | | |
| 6. Net Gain (loss) from Disposition of Assets as a Result of a Complete Liquidation | | Line 18, Page 2 | | Line 18, Page 1 |

**PART III Partner's Information**

| | | | |
|---|---|---|---|
| 1. Nonresident Partner's Share of NJ Tax | 1. | 573 | Line 19a, Page 1 CBT-100<br>Line 10a, Page 1 CBT-100S<br>Line 8, PART-100<br>Line 47, NJ-1040NR<br>Line 21, NJ-1080C<br>Line 32a, NJ-1041 |
| 2. Partner's HEZ Deduction | 2. | | |
| 3. Partner's Sheltered Workshop Tax Credit | 3. | | |

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During the tax year, this partner had deductible business expenses as shown below:

| | |
|---|---|
| Auto | $300 |
| Telephone | 75 |
| Investment interest expense to acquire the partnership interest | 48 |

**EXAMPLE 1** *(continued)*

## Resident

A resident partner reports distributive share of partnership income on the New Jersey resident income tax return, Form NJ-1040, as follows:

| | |
|---|---|
| Distributive share of partnership income per Schedule NJK-1, Column A: | $15,423 |
| Less unreimbursed business expenses: | |
| Auto | (300) |
| Telephone | ( 75) |
| Investment interest expense to acquire the partnership interest | ( 48) |
| Adjusted distributive share of partnership income (include on Form NJ-1040) | $15,000 |

The partner must enclose a schedule, similar to the one above, with the return to explain any adjustments made to the amount reported on Schedule NJK-1 by the partnership.

## Nonresident

A nonresident partner must use an allocation factor to determine the portion of each expense that may be deducted from New Jersey source income. The partner computes the allocation factor by dividing "Distributive Share of Partnership Income (loss)" in Column B (New Jersey Source Amounts) by "Distributive Share of Partnership Income (loss)" in Column A (Total Distribution). In this example, the allocation factor is 50% (7,712 ÷ 15,423). The partner reports distributive share of partnership income on the New Jersey nonresident income tax return, Form NJ-1040NR, as follows:

| | All Sources | New Jersey Sources |
|---|---|---|
| Distributive share of partnership income per Schedule NJK-1, Columns A and B: | $15,423 | $ 7,712 |
| Less unreimbursed business expenses: | | |
| Auto | ( 300) | ( 150) |
| Telephone | ( 75) | ( 38) |
| Investment interest expense to acquire the partnership interest | ( 48) | ( 24) |
| Adjusted distributive share of partnership income (include on Form NJ-1040NR) | $15,000 | $ 7,500 |

The partner must enclose a schedule, similar to the one above, with the return to explain any adjustments made to the amounts reported on Schedule NJK-1 by the partnership.

The nonresident partner will also claim credit for $573 on Form NJ-1040NR for tax that has been paid on her behalf by the partnership.

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## QUESTION 2 What do I report if my partnership did not give me a Schedule NJK-1, Form NJ-1065?

There may be instances where a partnership which has income or loss from New Jersey sources or in which one or more of the partners is a New Jersey resident does not comply with its responsibility to file Form NJ-1065 and provide each partner with Schedule NJK-1.

If you did not receive Schedule NJK-1 from a particular partnership, and you are either a New Jersey resident or a nonresident who knows or believes that the partnership had income (loss) from New Jersey sources, contact the partnership immediately to obtain Schedule NJK-1. If you are unable to obtain Schedule NJK-1, you will have to use the information from the Federal Schedule K-1 that the partnership provided to complete Reconciliation Worksheet A.

Reconciliation Worksheet A will enable you to determine the proper amount to report as your distributive share of partnership income for New Jersey tax purposes. In order to complete the worksheet, you will have to obtain certain information from the partnership in addition to the amounts provided on Federal Schedule K-1 (e.g., the amount of taxes based on income and the amount of interest income attributable to obligations which are exempt for New Jersey income tax purposes).

Tax Topic Bulletin **GIT-5**, *Exempt Obligations,* contains more information about obligations that are exempt from New Jersey income tax.

Both resident partners and nonresident partners who have income from New Jersey sources must complete a Reconciliation Worksheet A for each Federal Schedule K-1 received from a partnership that did not also provide a corresponding Schedule NJK-1.

The amount of partnership income (loss) from line 17 of the completed Reconciliation Worksheet A may be adjusted to reflect any qualified unreimbursed business expenses (see ***Adjustments to Income*** on page 2) before being entered on Schedule NJ-BUS-1. The adjusted amount is then combined with the adjusted income (loss) from any other partnerships and the adjusted total entered on the "Distributive Share of Partnership Income" line of **Form NJ-1040**, Column A of **Form NJ-1040NR**, or **Form NJ-1041**. Nonresidents with other income from New Jersey sources must also report their partnership income from all sources, computed as if they were a New Jersey resident. See instructions for line 17 of Reconciliation Worksheet A on **page 14**.

A sample Reconciliation Worksheet A appears on **page 10**; line by line instructions for completing the worksheet begin on **page 11**.

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# Worksheet A

**RECONCILIATION OF SCHEDULE K-1, FEDERAL FORM 1065**

**PARTNERSHIP NAME** _____ **EMPLOYER ID NUMBER** _____

**TAX YEAR** _____

1. Ordinary income (loss) from trade or business activities ....1. _____
2. Net income (loss) from rental real estate activities.....2. _____
3. Net income (loss) from other rental activities.....3. _____
4. Guaranteed payments to partner .....4. _____
5. Interest income.....5. _____
6. Dividend income.....6. _____
7. Royalty income .....7. _____
8. Net short-term capital gain (loss).....8. _____
9. Net long-term capital gain (loss).....9. _____
10. Net IRC section 1231 gain (loss) .....10. _____
11. Other income (loss).....11. _____
12. Tax-exempt interest income .....12. _____
13. Subtotal (Add lines 1 through 12).....13. _____

14a. Taxes based on income .....14a. _____

14b. Other additions – specify: _____ .....14b. _____

14c. Total additions (Add lines 14a and 14b) .....14c. _____

15. Subtotal (Add lines 13 and 14c).....15. _____

16a. IRC section 179 expense.....16a. _____

16b. Excess meal & entertainment expense.....16b. _____

16c. Interest income from Federal obligations .....16c. _____

16d. Interest income from NJ obligations.....16d. _____

16e. Other subtractions – specify: _____ .....16e. _____

16f. Total subtractions (Add lines 16a through 16e) ..... 16f. _____

17. Partnership income (loss) (line 15 minus line 16f).....17. _____

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## INSTRUCTIONS FOR PARTNER'S RECONCILIATION WORKSHEET A

# Partnership Information

Enter the name and Federal Identification Number of the partnership that issued the Schedule K-1, Federal Form 1065 which is being reconciled. Enter your tax year.

# Income Information

**Line 1 – Ordinary Income (Loss) From Trade or Business Activities**
Enter on Line 1 the amount of ordinary income (loss) reported on Line 1, Schedule K-1, Federal Form 1065.

**Line 2 – Net Income (Loss) From Rental Real Estate Activities**
Enter on Line 2 the amount of net income (loss) from rental real estate activities reported on Line 2, Schedule K-1, Federal Form 1065.

**Line 3 – Net Income (Loss) From Other Rental Activities**
Enter on Line 3 the amount of net income (loss) from other rental activities reported on Line 3, Schedule K-1, Federal Form 1065.

**Line 4 – Guaranteed Payments to Partner**
Enter on Line 4 the amount of guaranteed payments reported on Line 4, Schedule K-1, Federal Form 1065.

**Line 5 – Interest Income**
Enter on Line 5 the amount of interest income reported on Line 5, Schedule K-1, Federal Form 1065.

**Line 6 – Dividend Income**
Enter on Line 6 the amount of dividend income reported on Line 6a, Schedule K-1, Federal Form 1065.

**Line 7 – Royalty Income**
Enter on Line 7 the amount of royalty income reported on Line 7, Schedule K-1, Federal Form 1065.

**Line 8 – Net Short-Term Capital Gain (Loss)**
Enter on Line 8 the amount of net short-term capital gain (loss) reported on Line 8, Schedule K-1, Federal Form 1065.

**Line 9 – Net Long-Term Capital Gain (Loss)**
Enter on Line 9 the amount of long-term capital gain (loss) reported on Lines 9a, 9b, and 9c, Schedule K-1, Federal Form 1065.

**Line 10 – Net IRC Section 1231 Gain (Loss)**
Enter on Line 10 the net IRC Section 1231 gain or loss reported on Line 10, Schedule K-1, Federal Form 1065.

**Line 11 – Other Income (Loss)**
Enter on Line 11 any other income (loss) that is not included on Lines 1 through 10 above. This will include the amount reported on Line 11 of Schedule K-1, Federal Form 1065. If any amount is reported on this line, you must enclose a schedule identifying the income or loss with your return.

**Line 12 – Tax-Exempt Interest Income**
Enter on Line 12 the amount of tax-exempt interest income reported on Line 18, Schedule K-1, Federal Form 1065.

**Line 13 – Subtotal**
Add the amounts on Line 1 through 12 and enter the result on Line 13.

**Line 14a – Taxes Based on Income**
Enter on Line 14a your share of the amount

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of taxes based on income which were taken as a deduction by the partnership on Federal Form 1065 in determining the amount of ordinary income (loss) which you reported on Line 1, above. If this information has not already been provided, you must obtain it from the partnership.

**Line 14b – Other Additions – Specify**
Enter on Line 14b any other items which were deducted from, or not included on, Lines 1 through 12 above which are not excludable under the New Jersey Gross Income Tax Act. Include the net addition adjustment from Worksheet **GIT-DEP**. Specify each item reported. If the amount reported on Line 13 above included any loss incurred in connection with the disposition of exempt New Jersey or Federal obligations, you must add back the amount of such loss on this line. If this information has not already been provided, you must obtain it from the partnership.

For taxable years beginning on or after January 1, 2004, and for assets placed in service on or after January 1, 2004, a New Jersey depreciation adjustment is required if Federal income included: the deduction of the 50% Federal special depreciation allowance or IRC Section 179 expense, IRC Section 179 recapture income, or a gain or loss on disposition of such asset. Use Gross Income Tax Depreciation Adjustment Worksheet **GIT-DEP** to calculate the adjustment. Include any net addition adjustment from Worksheet **GIT-DEP**, if applicable. (For information on how to request Worksheet **GIT-DEP** and instructions, see **page 32**.)

For New Jersey income tax purposes, the partnership can deduct IRC Section 179 expenses up to a maximum of $25,000 ($60,000 if New York Liberty Zone property is included). To determine the total amount deducted Federally by the partnership divide the IRC Section 179 expense listed on your Federal K-1 by your ownership percentage. If the total Federal deduction exceeded $25,000 ($60,000 if New York Liberty Zone property is included), you must use Worksheet **GIT-DEP** to calculate your New Jersey depreciation adjustment. To complete the form, you will need to obtain the necessary information from the partnership, including the Federal special depreciation allowance.

**Line 14c – Total Additions**
Add the amounts on Lines 14a and 14b and enter the result on Line 14c.

**Line 15 – Subtotal**
Add the amounts on Line 13 and 14c and enter the result on Line 15.

**Line 16a – IRC Section 179 Expense**
Enter on Line 16a any IRC Section 179 expense deduction reported on Line 12, Schedule K-1, Federal Form 1065.

**Line 16b – Excess Meal and Entertainment Expense**
Enter on Line 16b the balance of your meal and entertainment expenses which were not deductible for Federal income tax purposes. If this information has not already been provided, you must obtain it from the partnership.

**Line 16c – Interest Income From Federal Obligations**
Enter on Line 16c any interest from Federal obligations that is excludable from New Jersey income and was included in the amounts reported on Lines 5 or 6 above. If this information has not already been provided, you must obtain it from the partnership.

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**Note:** Lines 16c and 16d - Amounts excludable from income include interest and dividends on obligations of the State of New Jersey or any of its political subdivisions and from tax-exempt obligations of the United States government, its territories, or instrumentalities. Distributions from New Jersey qualified investment funds are also exempt, as are distributions from other investment funds, but only to the extent the distribution is derived from obligations of the type described in New Jersey law at N.J.S.A. 54A:6-14, et seq.

Include the total of Lines 16c and 16d on Line 15b, Form NJ-1040.

**Line 16d – Interest Income From New Jersey Obligations**

Enter on Line 16d the amount of interest income from New Jersey obligations that is excludable from New Jersey income and was included in the amount reported on Lines 6 or 12 above. If this information has not already been provided, you must obtain it from the partnership.

**Line 16e – Other Subtractions – Specify**

Enter on Line 16e any other items which are excludable or deductible from the income (loss) included in the subtotal reported on Line 13 of this worksheet. You should include on this line any gains from the sale of exempt Federal or New Jersey obligations, the net subtraction adjustment from Worksheet **GIT-DEP**, the New Jersey allowable IRC Section 199 deduction from **Form 501-GIT**, and the contribution you made through the partnership to an IRC Section 401(k) plan. Contributions in excess of Federal limits and taxable for Federal income tax purposes may not be included on this line. If this information has not already been provided, you must obtain it from the partnership.

For taxable years beginning on or after January 1, 2004, and for assets placed in service on or after January 1, 2004, a New Jersey depreciation adjustment is required if Federal income included: the deduction of the 50% Federal special depreciation allowance or IRC Section 179 expense, IRC Section 179 recapture income, or a gain or loss on disposition of such asset. Use Gross Income Tax Depreciation Adjustment Worksheet **GIT-DEP** to calculate the adjustment. Include any net subtraction adjustment from Worksheet **GIT-DEP**, if applicable. (For information on how to request Worksheet **GIT-DEP** and instructions, see **page 32**.)

For New Jersey income tax purposes, the partnership can deduct IRC Section 179 expenses up to a maximum of $25,000 ($60,000 if New York Liberty Zone property is included). To determine the total amount deducted Federally by the partnership divide the IRC Section 179 expense listed on your Federal K-1 by your ownership percentage. If the total Federal deduction exceeded $25,000 ($60,000 if New York Liberty Zone property is included), you must use Worksheet **GIT-DEP** to calculate your New Jersey depreciation adjustment. To complete the form, you will need to obtain the necessary information from the partnership, including the Federal special depreciation allowance.

Pursuant to N.J.S.A. 54A:5-15, New Jersey has uncoupled from many provisions of IRC Section 199. For tax years beginning after December 31, 2004, the New Jersey Domestic Production Activities Deduction is based on domestic production gross receipts derived exclusively from a lease, rental, sale, exchange, or other disposition of qualified production property which was manufactured or produced, as defined under N.J.S.A. 54A:5-15, by the

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taxpayer in whole or in significant part within the United States.

The New Jersey deduction is **not** allowed for activities such as:

- Qualified production property grown or extracted by the taxpayer
- Films, electricity, natural gas, potable water, computer software, or sound recordings produced by the taxpayer
- Construction activities
- Engineering or architectural services

Complete **Form 501-GIT** to calculate the New Jersey Domestic Production Activities Deduction to report when determining the distributive share of partnership income.

**Line 16f – Total Subtractions**
Add the amounts on Lines 16a through 16e and enter the result on Line 16f.

**Line 17 – Partnership Income (Loss)**
Subtract Line 16f from Line 15 and enter the result on Line 17. This amount represents your distributive share of partnership income from all sources for New Jersey income tax purposes. You may deduct any allowable unreimbursed business expenses before entering the adjusted amount on Schedule NJ-BUS-1 of Form NJ-1040, Form NJ-1040NR, or Form NJ-1041. See ***Adjustments to Income*** on page 2. The adjusted amount is netted with the income (loss) from any other partnerships listed on Schedule NJ-BUS-1 and reported on Form NJ-1040, Column A of Form NJ-1040NR, or on Form NJ-1041.

Nonresidents whose partnership income was derived from New Jersey sources must also include the portion of the adjusted distributive share of partnership income allocated to New Jersey in Column B, Form NJ-1040NR or on Schedule E, Form NJ-1041. If the nonresident's partnership income was *not* derived from New Jersey sources, include this amount only on Schedule NJ-BUS-1 and in Column A of Form NJ-1040NR or on Form NJ-1041.

## QUESTION 3 What do I report in the year my partnership was completely liquidated?

Under income tax regulation N.J.A.C. 18:35-1.3(d)2, a complete liquidation of a partnership is deemed to occur in the tax year when all its partners discontinue all partnership activities, all its assets have been distributed to the partners, and the partners are required to recognize gain or loss on the disposition of their partnership interests for Federal income tax purposes. If all three criteria are met, the partnership's gain or loss from the sale or disposition of its assets as a result of a complete liquidation are to be separately reported as "Net gains or income from disposition of property."

If a partnership was completely liquidated, the partnership will provide you with a Schedule NJK-1, Form NJ-1065 which separately states your distributive share of partnership income (loss) and your net gain (loss) from disposition of assets as a result of a complete liquidation.

If a partnership was completely liquidated and you did not receive Schedule NJK-1 from the partnership, you will have to complete Reconciliation Worksheet A – Liquidated to determine the correct amount of distributive share of partnership income (loss) and net gain (loss) from disposition of assets as a result of a complete liquidation. In order to complete Worksheet A Liquidated, you will need to obtain the necessary information from the partnership.

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# Worksheet A – Liquidated

## RECONCILIATION OF SCHEDULE K-1, FEDERAL FORM 1065

**PARTNERSHIP NAME** _____ **EMPLOYER ID NUMBER** _____
**TAX YEAR** _____

Date the partnership and all its partners discontinued all business activities this year..... _____/_____/_____
Date all the partnership assets were distributed to the partners this year ..... _____/_____/_____
Were all the partners required to recognize a gain or loss on the disposition of their partnership assets for Federal income tax purposes this year? ..... ☐ Yes ☐ No

*This schedule cannot be completed unless all business activities were discontinued this year, all assets were distributed to the partners this year, and all the partners were required to recognize a gain or loss on the disposition of their partnership assets for Federal income tax purposes this year.*

| | | Column A Distributive Share of Partnership Income | | Column B Net Gain (loss) from Disposition of Assets in Complete Liquidation |
|---|---|---|---|---|
| 1. Ordinary income (loss) from trade or business activities | 1. | | | |
| 2. Net income (loss) from rental real estate activities | 2. | | | |
| 3. Net income (loss) from other rental activities | 3. | | | |
| 4. Guaranteed payments to partner | 4. | | | |
| 5. Interest Income | 5. | | | |
| 6. Dividend income | 6. | | | |
| 7. Royalty income | 7. | | | |
| 8. Net short-term capital gain (loss) | 8. | | 8. | |
| 9. Net long-term capital gain (loss) | 9. | | 9. | |
| 10. Net IRC section 1231 gain (loss) | 10. | | 10. | |
| 11. Other income (loss) | 11. | | 11. | |
| 12. Tax-exempt interest income | 12. | | | |
| 13. Subtotal (Add lines 1 through 12) | 13. | | 13. | |
| 14a. Taxes based on income | 14a. | | | |
| 14b. Other additions – specify: _____ | 14b. | | 14b. | |
| 14c. Total additions (Add lines 14a and 14b) | 14c. | | 14c. | |
| 15. Subtotal (Add lines 13 and 14c) | 15. | | 15. | |
| 16a. IRC section 179 expense | 16a. | | | |
| 16b. Excess meal and entertainment expense | 16b. | | | |
| 16c. Interest income from Federal obligations | 16c. | | | |

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**Worksheet A – Liquidated** *(continued)*

| | Column A Distributive Share of Partnership Income | | Column B Net Gain (loss) from Disposition of Assets in Complete Liquidation | |
|---|---|---|---|---|
| 16d. Interest income from NJ obligations | 16d. | | | |
| 16e. Other subtractions – Specify: _____ | 16e. | | 16e. | |
| 16f. Total subtractions (Add lines 16a through 16e) _____ | 16f. | | 16f. | |
| 17. Partnership income (loss) (line 15 minus line 16f) | 17. | | | |
| 18. Net Gain (loss) from Disposition of Assets (line 15 minus line 16f) | | | 18. | |

OBSOLETE

## INSTRUCTIONS FOR PARTNER'S RECONCILIATION WORKSHEET A – LIQUIDATED

To properly complete Reconciliation Worksheet A – Liquidated, you will need to obtain the necessary information from the partnership, including the partnership's gain or loss from liquidation of the partnership's assets.

### Partnership Information

Enter the name and Federal Identification Number of the partnership that issued the Schedule K-1, Federal Form 1065, which is being reconciled. Also enter your tax year, the date the partnership and all its partners discontinued all business activities, the date all the partnership assets were distributed to the partners, and whether all the partners are required to recognize gain or loss on the disposition of their partnership interests for Federal income tax purposes this tax year.

Follow the **Instructions for Partner's Reconciliation Worksheet A** on page 11.

**Column A –** For each line, enter the partnership income, gains, losses, and New Jersey adjustments from and applicable to the partnership's operations, activities, and transactions that do not pertain to the sale or disposition of its assets as a result of a complete liquidation.

**Column B –** For each line, enter the partnership's gains or losses and New Jersey adjustments that are applicable to the sale or disposition of its assets as a result of a complete liquidation.

## QUESTION 4 How do I determine my reportable income from a partnership if I was a part-year resident/part-year nonresident?

# Residents

As a part-year resident, you are required to file a part-year resident return (**Form NJ-1040**) covering the portion of your tax year that you resided in New Jersey. The return must include the prorated amount of your distributive share of partnership income that was realized by the partnership during the portion of *its* fiscal year that you were a New Jersey resident.

If the partnership was completely liquidated (see **question 3** on page 14), you must also report the prorated amount of your net gain (loss) from disposition of assets as a result of a complete liquidation that was realized by the partnership during the portion of its fiscal year that you were a New Jersey resident.

To determine the prorated amount of distributive share of partnership income to include on Schedule NJ-BUS-1 of Form NJ-1040, first deduct any allowable unreimbursed business expenses from the amount of distributive share of partnership income in Column A, Schedule NJK-1. See ***Adjustments to Income*** on page 2. Then multiply the result by the percentage which the number of days in the partnership's fiscal year that you were a New Jersey resident bears to 365 (366 for leap years).

**EXAMPLE 2**

Partnership's fiscal year begins on July 1, 2014, and ends on June 30, 2015. Taxpayer moved out of New Jersey on April 30, 2015 (304 days as a resident during the partnership's fiscal year).

This taxpayer's residency percentage would therefore be:

$$304 \div 365 = 83.3\%$$

**NOTE:** If you have a different taxable year than your partnership, you must report your distributive share of partnership income for the partnership's taxable year that *ended* within your taxable year.

If you did not receive a Schedule NJK-1 from your partnership, deduct any allowable unreimbursed business expenses from the amount on Line 17 of your completed Reconciliation Worksheet A. Then multiply the result by the residency percentage, as determined above, to calculate the portion of your distributive share of partnership income to include on Schedule NJ-BUS-1 of Form NJ-1040. For more information regarding Reconciliation Worksheet A, see **question 2** on page 9.

If the partnership was completely liquidated, the Schedule NJK-1, Form NJ-1065 you receive from your partnership will separately state your net gain (loss) from disposition of assets as a result of a complete liquidation. To determine the prorated amount to include on Form NJ-1040, multiply the amount of net gain (loss) from disposition of assets as a result of a complete liquidation reported in Column A, Schedule NJK-1 by the percentage which the number of days in the partnership's fiscal year that you were a New Jersey resident bears to 365 (366 for leap years). The result is the gain (loss) to be included on your Form NJ-1040 in the category "Net gains or income from disposition of property."

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If you did not receive a Schedule NJK-1 from your partnership, multiply the amount on Line 18 of your completed Reconciliation Worksheet A – Liquidated by the residency percentage, as determined above, to calculate the portion of your net gain (loss) from disposition of assets as a result of a complete liquidation to be included as "Net gains or income from disposition of property" on Form NJ-1040.

For more information regarding Reconciliation Worksheet A – Liquidated, see **question 3** on page 14.

## Nonresidents

As a part-year nonresident partner, you are required to file a part-year **Form NJ-1040NR** covering the portion of your tax year that you were not a New Jersey resident, but only if you had income from New Jersey sources during that period. Your part-year Form NJ-1040NR must include in Column A the prorated amount of your distributive share of partnership income from all sources and, in Column B, the prorated amount of your distributive share of partnership income that was derived from New Jersey sources.

If the partnership was completely liquidated (see **question 3** on page 14), you must also report the prorated amount of your New Jersey sourced net gain (loss) from disposition of assets as a result of a complete liquidation that was realized by the partnership during the portion of its fiscal year that you were a nonresident of New Jersey.

To determine the prorated amount of distributive share of partnership income to include on Schedule NJ-BUS-1 for Column A of Form NJ-1040NR, first deduct any allowable unreimbursed business expenses from the amount of your distributive share of partnership income from everywhere reported in Column A, Schedule NJK-1. See ***Adjustments to Income*** on page 2. Then multiply the result by the percentage which the number of days in the partnership's fiscal year that you were *not* a New Jersey resident bears to 365 (366 for leap years).

**EXAMPLE 3**

From the facts given in example 2, the taxpayer's nonresidency percentage is:

$$61 \div 365 = 16.7\%$$

To determine the prorated amount to include in Column B, Form NJ-1040NR, deduct any allowable unreimbursed business expenses from the amount of your distributive share of partnership income from New Jersey sources reported in Column B, Schedule NJK-1, Form NJ-1065, and multiply the result by the nonresidency percentage, as calculated above.

If the partnership was completely liquidated, to determine the prorated amount of your net gain (loss) from disposition of assets as a result of a complete liquidation from everywhere, multiply the net gain (loss) from disposition of assets as a result of a complete liquidation listed in Column A of your Schedule NJK-1 by your nonresidency percentage. The result is the gain (loss) to be included in Column A, Form NJ-1040NR in the category "Net gains or income from disposition of property."

To determine the prorated amount of your net gain (loss) from disposition of assets as a result of a complete liquidation from New Jersey sources, multiply the gain (loss) from disposition of assets as a result of a complete liquidation from New Jersey sources listed in Column B of your Schedule NJK-1 by your nonresidency percentage. The result is the gain (loss) to be included in Column B, Form

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NJ-1040NR in the category "Net gains or income from disposition of property."

If you did not receive a Schedule NJK-1 from your partnership and you know or believe that the partnership had income from New Jersey sources, you should contact the partnership immediately. If your partnership had no income from New Jersey sources but you had other types of income from New Jersey sources during the period that you were a nonresident, multiply either the amount on Line 17, Reconciliation Worksheet A or the amounts on Lines 17 and 18, Reconciliation Worksheet A – Liquidated, by the nonresidency percentage, as determined above, after first deducting any allowable unreimbursed business expenses. The result(s) will be included on Schedule NJ-BUS-1 for Column A of Form NJ-1040NR. For more information regarding Reconciliation Worksheet A, see **question 2** on page 9, or for more information regarding Reconciliation Worksheet A – Liquidated, see **question 3** on page 14.

## QUESTION 5 How do I allocate losses reported by more than one of my partnerships if total losses exceed partnership income?

When you have income from one partnership and losses from two or more other partnerships which in total exceed the positive partnership income, the losses must be allocated among the partnerships with losses. To determine the usable portion of each partnership's loss, you must divide each partnership's loss by total partnership losses and then multiply this percentage by total partnership income.

$$\frac{\text{Partnership A's Loss}}{\text{Total Partnership Losses}} \times \text{Total Partnership Income} = \text{Usable portion of partnership A's losses}$$

**EXAMPLE 4**

Mary Wells has three partnerships whose adjusted distributive shares of partnership income/loss for 2014 are as follows:

| | |
|---|---|
| Partnership A | $ 15,000 |
| Partnership B | ($ 10,000) |
| Partnership C | ($ 20,000) |

The usable portion of each partnership's loss is determined as follows:

Partnership B $\frac{(\$\ 10{,}000)}{(\$\ 30{,}000)} \times \$15{,}000 = (\$\ 5{,}000)$

Partnership C $\frac{(\$\ 20{,}000)}{(\$\ 30{,}000)} \times \$15{,}000 = (\$10{,}000)$

The usable portion of each loss will also be needed to determine your New Jersey partnership basis (see **question 6** on page 21). A worksheet to aid you in calculating the usable portion of each partnership's loss is provided on page 20 (**Worksheet B**).

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# Worksheet B

## ALLOCATION OF NEW JERSEY LOSSES

**NAME** _____ **SS#** _____

**RETURN YEAR** _____

**PARTNERSHIPS WITH LOSSES:**

| | Partnership | FID | Adjusted New Jersey Partnership Loss | Usable Portion of New Jersey Partnership Loss |
|---|---|---|---|---|
| 1 | | | A1. | C1. |
| 2 | | | A2. | C2. |
| 3 | | | A3. | C3. |
| 4 | | | A4. | C4. |
| 5 | | | A5. | C5. |
| **Total** | | | A. | C. |

**PARTNERSHIPS WITH INCOME:**

| | Partnership | FID | Adjusted New Jersey Partnership Income |
|---|---|---|---|
| 1 | | | B1. |
| 2 | | | B2. |
| 3 | | | B3. |
| 4 | | | B4. |
| 5 | | | B5. |
| **Total** | | | B. |

**(A#)** _____ × _____ = _____
**(A)** **(B)** **(C#)**

## INSTRUCTIONS

- Report the name, FID number, and either adjusted income or loss of each partnership on the lines above. Add the adjusted losses (A#) and income (B#) and report the totals of each in Blocks A and B.
- Divide each partnership's adjusted New Jersey partnership loss (A#) by your total adjusted New Jersey partnership loss (A) and then multiply that percentage by your total adjusted New Jersey partnership income (B). The result is the partnership's usable loss (C#) that is to be entered in the partnership's corresponding block entitled "Usable Portion of New Jersey Partnership Loss."
- Add the usable losses and report the total in Block C. The total in Block C should equal the amount reported in Block B.

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## QUESTION 6 How do I determine the basis in my partnership(s) for New Jersey income tax purposes?

Compute the partnership basis each year. Updating your New Jersey basis yearly will provide you with the documentation needed to determine your gain or loss from the disposition of property when you sell your investment or the partnership is dissolved.

To calculate your basis, you will need to know the following information:

- Your initial contribution to the partnership
- Additional contributions by year
- Withdrawals by year
- Income reported over your period of ownership
- Losses *used* over your period of ownership.

**Worksheet C** has been included on page 23 to assist you in tracking your basis in your partnership interests from year to year.

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**EXAMPLE 5**

Mary Wells owns an interest in three partnerships. The following facts are needed to determine the basis in each partnership at the end of 2014:

**Contributions/(Withdrawals)**

| Partnership | A | B | C |
|---|---|---|---|
| 2012 | $10,000 | $10,000 | $10,000 |
| 2013 | — | — | $ 5,000 |
| 2014 | — | ($ 3,000) | — |

**Income/(Loss)**

| Partnership | A | B | C |
|---|---|---|---|
| 2012 | ($ 2,000) | ($ 1,500) | ($ 5,000) |
| 2013 | ($ 5,000) | ($ 4,000) | ($ 7,000) |
| 2014 | $15,000 | ($10,000) | ($20,000) |

Income/(loss) reflects the deduction of any unreimbursed business expenses that met the criteria given on page 2, ***Adjustments to Income***.

**EXAMPLE 5** *(continued)*

**Basis Calculation**

| Partnership | A | B | C |
|---|---|---|---|
| Initial Contribution | $ 10,000 | $ 10,000 | $ 10,000 |
| Additional Contribution | 0 | 0 | 5,000 |
| Withdrawals | 0 | (3,000) | 0 |
| Income/Used Loss 2012 | 0 | 0 | 0 |
| Income/Used Loss 2013 | 0 | 0 | 0 |
| Income/Used Loss 2014 | 15,000 | (5,000)* | (10,000)* |
| **Basis as of 12/31/14** | $ 25,000 | $ 2,000 | $ 5,000 |

Since no income was reported to New Jersey in tax years 2012 and 2013, the losses incurred in those years are not included when determining Mary's basis for New Jersey tax purposes.

* See question 5 on page 19 for information on how to allocate losses.

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## QUESTION 7 How do I determine the gain (loss) from the sale of my partnership interest?

### Residents

If you were a New Jersey resident at the time you disposed of your partnership interest, you must include in your income the gain or loss from the disposition, including any dissolution of a partnership for which you received no value. N.J.S.A. 54A:5-1c requires that you use the Federal adjusted basis to calculate your gain or loss from the disposition of property. However, the decision rendered by the New Jersey Supreme Court in *Koch v. Director,* 157 N.J. 1 (2000), requires that a separate New Jersey basis be determined. Only the amount of your used loss for New Jersey purposes will result in a reduction to your partnership basis.

### Nonresidents

If you were a nonresident at the time you disposed of your partnership interest, do not include the gain (loss) from the disposition of your partnership interest in your income from New Jersey sources in Column B, Form NJ-1040NR. However, if you had other types of income from New Jersey sources in the year of disposition and are required to file a New Jersey nonresident return, the gain (loss) from the disposition of your partnership interest must be calculated as if you were a New Jersey resident and included as "Net gains or income from disposition of property" in Column A, Form NJ-1040NR.

# Worksheet C

**NEW JERSEY PARTNERSHIP BASIS**

**NAME** _____ **SS#** _____

**PARTNERSHIP NAME** _____ **FID#** _____

| Year | Beginning New Jersey Basis (A) | + | Capital (B) | + | Adjusted New Jersey Partnership Income (Used Loss) (C) | − | Withdrawals (D) | = | Ending New Jersey Basis (E) |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |

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Enter the partnership's tax year in the first column.

(A) Enter the ending balance from Column E of the preceding tax year.

(B) Enter the amount of capital you contributed to the partnership during the tax year.

(C) Enter the amount of your "Adjusted New Jersey Partnership Income" or the amount of your "Usable Portion of New Jersey Partnership Loss." Report these amounts in either Column B or Column C of Worksheet B if you have income from one partnership and losses from two or more other partnerships that exceed your positive income. If you have no partnership with positive income, you have no "Usable Portion of New Jersey Partnership Loss." Additionally, add any tax-exempt income and subtract any nondeductible expenses.

(D) Enter the amount of your withdrawals from the partnership during the tax year.

(E) Enter the net amount of Columns A through D.

**EXAMPLE 6A**

FACTS:

- Interest in only one partnership
- Purchase price in 2004: $15,000
- No additional contributions of capital
- No withdrawals over period of ownership
- No income from the partnership ever reported to New Jersey
- Partnership incurred a $2,000 loss each year; the losses were not used for New Jersey income tax purposes
- Schedule NJK-1 received from the partnership for 2014 is marked "Final Return"
- Nothing received in exchange for interest in the partnership upon dissolution

BASIS CALCULATION:

| | |
|---|---|
| Purchase Price | $ 15,000 |
| Capital Contributions | 0 |
| Withdrawals | (0) |
| Reported Income | 0 |
| **Basis in Partnership** | $ 15,000 |

GAIN (LOSS) from DISPOSITION of PROPERTY:

| | |
|---|---|
| Sale Price | $ 0 |
| Less Ending Basis | (15,000) |
| Loss Disp. of Property | $(15,000) |

The cost basis for the partnership interest in this example is $15,000. Since you received no consideration for your partnership interest, you realized a $15,000 loss from the dissolution of the partnership, which can be used to offset any other gains that occur in the same tax year in the income category "Net gains or income from disposition of property."

**EXAMPLE 6B**

FACTS: Same as example 6A above, except partnership interest sold for $50,000.

GAIN (LOSS) from DISPOSITION of PROPERTY:

| | |
|---|---|
| Sale Price | $ 50,000 |
| Less Ending Basis | (15,000) |
| Gain Disp. of Property | $ 35,000 |

In this case, a $35,000 gain results from the sale of your partnership interest which can be netted with any other gains (losses) from the disposition of property that occur in the same tax year.

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**EXAMPLE 7A**

FACTS:

- Interest in only one partnership
- Purchase price in 2004: $15,000
- Additional contributions of capital: $5,000
- Withdrawals over period of ownership: $4,000
- Partnership reported income in 2005 of $1,500 and $2,500 in 2006
- Partnership incurred a $2,000 loss each year (2007–2014); the losses were not used for New Jersey income tax purposes
- Schedule NJK-1 received from the partnership for 2014 is marked "Final Return"
- Net gain (loss) from disposition of assets as a result of a complete liquidation was $26,000
- Received final distribution of $30,000 from interest in the partnership upon dissolution

BASIS CALCULATION:

| | |
|---|---|
| Purchase Price | $ 15,000 |
| Capital Contributions | 5,000 |
| Withdrawals | (4,000) |
| Reported Partnership Income | 4,000 |
| Net Gain from Disposition of Liquidated Assets | 26,000 |
| **Basis in Partnership** | $ 46,000 |

GAIN (LOSS) from DISPOSITION of PROPERTY:

| | |
|---|---|
| Sale Price | $ 30,000 |
| Less Ending Basis | (46,000) |
| Loss Disp. of Property | $ (16,000) |

The cost basis for the partnership interest in this example is $46,000. Since you received $30,000 as a final distribution from your partnership interest, you realized a $16,000 loss from the dissolution of the partnership, which can be used to offset your $26,000 gain from disposition of assets as a result of a complete liquidation or any other gains that occur in the same tax year in the income category "Net gains or income from disposition of property."

**EXAMPLE 7B**

FACTS: Same as example 7A above, except you sold your partnership interest for $50,000.

GAIN (LOSS) from DISPOSITION of PROPERTY:

| | |
|---|---|
| Sale Price | $50,000 |
| Less Ending Basis | (46,000) |
| Gain Disp. of Property | $ 4,000 |

The $4,000 gain should be netted with your $26,000 gain from the disposition of assets as a result of a complete liquidation and any other gains (losses) from the disposition of property that occur in the same tax year.

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**EXAMPLE 8A**

FACTS: You have interests in two partnerships (A & B)

**Partnership A**

- Purchase price in 2004: $15,000
- No additional contributions of capital
- No withdrawals over period of ownership
- No income from Partnership A ever reported to New Jersey
- Partnership A incurred a $2,000 loss each year
- Schedule NJK-1 received from Partnership A for 2014 is marked "Final Return"
- Nothing received in exchange for interest in the partnership upon disposition

**Partnership B**

- Purchase price in 2010: $10,000
- No additional contributions of capital
- No withdrawals from this partnership
- Partnership B reported income of $500 in years 2010–2014
- This is an ongoing partnership

BASIS CALCULATION – Partnership A:

| | |
|---|---|
| Purchase Price | $ 15,000 |
| Capital Contributions | 0 |
| Withdrawals | (0) |
| Used Losses | (2,500) |
| **Basis in Partnership** | $ 12,500 |

GAIN (LOSS) from DISPOSITION of PROPERTY:

| | |
|---|---|
| Sale Price | $ 0 |
| Less Ending Basis | (12,500) |
| Loss From Disp. of Property | $ (12,500) |

You have a $12,500 loss to net with other gains (losses) from the disposition of property that occur in the same year. In each year $500 of the $2,000 loss from Partnership A was used to offset the $500 of income from Partnership B. The $2,500 of used losses reduces your partnership basis.

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**EXAMPLE 8B**

FACTS: You have interests in two partnerships (A & B)

**Partnership A**

- Purchase price in 2004: $15,000
- Additional contributions of capital: $5,000
- Withdrawals over period of ownership: $1,000
- Losses 2004–2012: $2,000 each year
- Partnership A reported income of $1,500 in 2013; $10,000 in 2014 (attributed to Section 1231 gain)
- Partnership interest sold for $50,000

**Partnership B**

- Purchase price in 2010: $10,000
- No additional contributions of capital
- No withdrawals from this partnership
- Partnership B reported income of $500 in years 2010–2014
- This is an ongoing partnership

BASIS CALCULATION – Partnership A:

| | |
|---|---|
| Purchase Price | $ 15,000 |
| Capital Contributions | 5,000 |
| Withdrawals | (1,000) |
| Used Losses | (1,500) |
| Reported Income Partnership A | 11,500 |
| **Ending Basis** | $ 29,000 |

GAIN (LOSS) from DISPOSITION of PROPERTY:

| | |
|---|---|
| Sale Price | $ 50,000 |
| Less Ending Basis | (29,000) |
| Gain From Disp. of Property | $ 21,000 |

You have a $21,000 gain to net with other gains or losses from the disposition of property that occur in the same tax year.

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# Worksheet A

## RECONCILIATION OF SCHEDULE K-1, FEDERAL FORM 1065

PARTNERSHIP NAME _____ EMPLOYER ID NUMBER _____

TAX YEAR _____

1. Ordinary income (loss) from trade or business activities ....1. _____
2. Net income (loss) from rental real estate activities.....2. _____
3. Net income (loss) from other rental activities.....3. _____
4. Guaranteed payments to partner .....4. _____
5. Interest income.....5. _____
6. Dividend income.....6. _____
7. Royalty income .....7. _____
8. Net short-term capital gain (loss).....8. _____
9. Net long-term capital gain (loss).....9. _____
10. Net IRC section 1231 gain (loss) .....10. _____
11. Other income (loss).....11. _____
12. Tax-exempt interest income .....12. _____
13. Subtotal (Add lines 1 through 12).....13. _____

14a. Taxes based on income .....14a. _____

14b. Other additions – specify: _____ .....14b. _____

14c. Total additions (Add lines 14a and 14b) .....14c. _____

15. Subtotal (Add lines 13 and 14c).....15. _____

16a. IRC section 179 expense.....16a. _____

16b. Excess meal & entertainment expense.....16b. _____

16c. Interest income from Federal obligations .....16c. _____

16d. Interest income from NJ obligations.....16d. _____

16e. Other subtractions – specify: _____ .....16e. _____

16f. Total subtractions (Add lines 16a through 16e) ..... 16f. _____

17. Partnership income (loss) (line 15 minus line 16f).....17. _____

OBSOLETE

# Worksheet A – Liquidated

## RECONCILIATION OF SCHEDULE K-1, FEDERAL FORM 1065

**Partnership Name** _____ **Employer ID Number** _____

**Tax Year** _____

Date the partnership and all its partners discontinued all business activities this year..... ____/____/____

Date all the partnership assets were distributed to the partners this year ..... ____/____/____

Were all the partners required to recognize a gain or loss on the disposition of their partnership assets for Federal income tax purposes this year? ..... ☐ Yes ☐ No

*This schedule cannot be completed unless all business activities were discontinued this year, all assets were distributed to the partners this year, and all the partners were required to recognize a gain or loss on the disposition of their partnership assets for Federal income tax purposes this year.*

| | | Column A Distributive Share of Partnership Income | | Column B Net Gain (loss) from Disposition of Assets in Complete Liquidation | |
|---|---|---|---|---|---|
| 1. Ordinary income (loss) from trade or business activities | 1. | | | | |
| 2. Net income (loss) from rental real estate activities | 2. | | | | |
| 3. Net income (loss) from other rental activities | 3. | | | | |
| 4. Guaranteed payments to partner | 4. | | | | |
| 5. Interest Income | 5. | | | | |
| 6. Dividend income | 6. | | | | |
| 7. Royalty income | 7. | | | | |
| 8. Net short-term capital gain (loss) | 8. | | 8. | | |
| 9. Net long-term capital gain (loss) | 9. | | 9. | | |
| 10. Net IRC section 1231 gain (loss) | 10. | | 10. | | |
| 11. Other income (loss) | 11. | | 11. | | |
| 12. Tax-exempt interest income | 12. | | | | |
| 13. Subtotal (Add lines 1 through 12) | 13. | | 13. | | |
| 14a. Taxes based on income | 14a. | | | | |
| 14b. Other additions – specify: _____ | 14b. | | 14b. | | |
| 14c. Total additions (Add lines 14a and 14b) | 14c. | | 14c. | | |
| 15. Subtotal (Add lines 13 and 14c) | 15. | | 15. | | |
| 16a. IRC section 179 expense | 16a. | | | | |
| 16b. Excess meal and entertainment expense | 16b. | | | | |
| 16c. Interest income from Federal obligations | 16c. | | | | |
| 16d. Interest income from NJ obligations | 16d. | | | | |
| 16e. Other subtractions – Specify: _____ | 16e. | | 16e. | | |
| 16f. Total subtractions (Add lines 16a through 16e) _____ | 16f. | | 16f. | | |
| 17. Partnership income (loss) (line 15 minus line 16f) | 17. | | | | |
| 18. Net Gain (loss) from Disposition of Assets (line 15 minus line 16f) | | | 18. | | |

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# Worksheet B

## ALLOCATION OF NEW JERSEY LOSSES

**NAME** _____ **SS#** _____

**RETURN YEAR** _____

**PARTNERSHIPS WITH LOSSES:**

| | Partnership | FID | Adjusted New Jersey Partnership Loss | Usable Portion of New Jersey Partnership Loss |
|---|---|---|---|---|
| 1 | | | A1. | C1. |
| 2 | | | A2. | C2. |
| 3 | | | A3. | C3. |
| 4 | | | A4. | C4. |
| 5 | | | A5. | C5. |
| **Total** | | | A. | C. |

**PARTNERSHIPS WITH INCOME:**

| | Partnership | FID | Adjusted New Jersey Partnership Income |
|---|---|---|---|
| 1 | | | B1. |
| 2 | | | B2. |
| 3 | | | B3. |
| 4 | | | B4. |
| 5 | | | B5. |
| **Total** | | | B. |

**(A#)** _____ × _____ = _____

**(A)** **(B)** **(C#)**

## INSTRUCTIONS

- Report the name, FID number, and either adjusted income or loss of each partnership on the lines above. Add the adjusted losses (A#) and income (B#) and report the totals of each in Blocks A and B.
- Divide each partnership's adjusted New Jersey partnership loss (A#) by your total adjusted New Jersey partnership loss (A) and then multiply that percentage by your total adjusted New Jersey partnership income (B). The result is the partnership's usable loss (C#) that is to be entered in the partnership's corresponding block entitled "Usable Portion of New Jersey Partnership Loss."
- Add the usable losses and report the total in Block C. The total in Block C should equal the amount reported in Block B.

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# Worksheet C

## NEW JERSEY PARTNERSHIP BASIS

**NAME** _____ **SS#** _____

**PARTNERSHIP NAME** _____ **FID#** _____

| Year | Beginning New Jersey Basis (A) | + | Capital (B) | + | Adjusted New Jersey Partnership Income (Used Loss) (C) | – | Withdrawals (D) | = | Ending New Jersey Basis (E) |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |
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Enter the partnership's tax year in the first column.

(A) Enter the ending balance from Column E of the preceding tax year.

(B) Enter the amount of capital you contributed to the partnership during the tax year.

(C) Enter the amount of your "Adjusted New Jersey Partnership Income" or the amount of your "Usable Portion of New Jersey Partnership Loss." Report these amounts in either Column B or Column C of Worksheet B if you have income from one partnership and losses from two or more other partnerships that exceed your positive income. If you have no partnership with positive income, you have no "Usable Portion of New Jersey Partnership Loss." Additionally, add any tax-exempt income and subtract any nondeductible expenses.

(D) Enter the amount of your withdrawals from the partnership during the tax year.

(E) Enter the net amount of Columns A through D.

# For More Information

## Online

- Division of Taxation website: **www.state.nj.us/treasury/taxation/**
- Email general State tax questions: **nj.taxation@treas.nj.gov**
  Do not include confidential information such as social security or Federal tax identification numbers, liability or payment amounts, dates of birth, or bank account numbers in your email.
- Subscribe to *NJ Tax E-News,* the Division of Taxation's online information service, at: **www.state.nj.us/treasury/taxation/listservice.shtml**

## By Phone

- Call the Division of Taxation's Customer Service Center at **609-292-6400.**
- Text Telephone Service (TTY/TDD) for Hearing-Impaired Users: **1-800-286-6613** (toll-free within NJ, NY, PA, DE, and MD) or **609-984-7300**. These numbers are accessible *only* from TTY devices. Submit a text message on any New Jersey tax matter and receive a reply through NJ Relay Services (711).

## In Person

Visit a New Jersey Division of Taxation regional office. For the address of the regional office nearest you call the Automated Tax Information System at 1-800-323-4400 or visit: **www.state.nj.us/treasury/taxation/ot1.shtml**

## In Writing

New Jersey Division of Taxation
Technical Information Branch
PO Box 281
Trenton, NJ 08695-0281

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# Forms and Publications

- Visit the Division of Taxation's website:
  Forms — **www.state.nj.us/treasury/taxation/forms.shtml**
  Publications — **www.state.nj.us/treasury/taxation/pubs.shtml**
- Call the Forms Request System at **1-800-323-4400** (within NJ, NY, PA, DE, and MD) or **609-826-4400** (Touch-tone phones only) to have printed forms or publications mailed to you.
  **Note:** Due to budgetary constraints, supplies are limited and only certain forms and publications can be ordered through this System.