



# Income From Partnerships

Bulletin GIT-9P

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## Introduction

Partnership income is reported as one category of income rather than in respective categories as was required prior to tax year 1999. For example, interest, dividends, rents, gains, or losses earned by a partnership are now 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 gross 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.

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

## General Information

### Partnership Defined

For tax purposes, “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 Defined

“Partner” means any owner of a partnership interest and shall include any taxpayer subject to the gross 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 ten (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 8.

### Payment Requirements

Effective for tax years beginning on or after January 1, 2002, 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 will credit the tax paid by the partnership to the accounts of its nonresident partners.

Beginning for privilege periods starting on or after January 1, 2007, 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 partners’ 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 to them by their partnership(s) on Schedule(s) 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, the net amount(s) are totaled and entered on the partner's personal New Jersey income tax return (Form NJ-1040, NJ-1040NR, or NJ-1041). If the adjusted net total is zero or less, no entry should be made on the return. 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 shall be based on the facts and circumstances of the expense. It is the burden of 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:

Line 4, Column B, Schedule NJK-1

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, a separate schedule detailing the nature and amount of each expense deducted should be attached to the taxpayer's return along with a copy of all Schedule(s) NJK-1 and/or Reconciliation Worksheet(s) A.

## 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 one year to another.

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 may use the loss to offset income from other partnerships. If the net amount from all partnerships is a loss, the taxpayer should make no entry on their individual New Jersey gross 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 18.

### **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 20.

### **Disposition of a Partnership Interest**

If you disposed of your interest in a partnership during the tax year, see question 7 on page 21 for details on how to determine and report the gain (loss) from the disposition.

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

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### **Residents**

New Jersey resident individuals, estates, and trusts are subject to the State’s gross income tax on their distributive share of partnership income (loss) regardless of the source from which the income was derived. This amount appears in Column A, Schedule NJK-1, Form NJ-1065 as “Distributive Share of Partnership Income (loss)” and should be entered on Form NJ-1040 or Form NJ-1041 as “Distributive Share of Partnership Income” after first deducting any allowable unreimbursed business expenses (see *Adjustments to Income* on page 3). If the adjusted amount is zero or less, make no entry on Form NJ-1040 or Form NJ-1041.

**Multiple Partnerships** – Taxpayers with income (loss) from more than one partnership must add the *adjusted* amounts of distributive share of partnership income from all partnerships and enter the total on Form NJ-1040 or Form NJ-1041. If the adjusted total is zero or less, make no entry. 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 and should be entered on Form NJ-1040 or Form NJ-1041 as “Net gains or income from disposition of property.”

### **Nonresidents**

Partners who reside outside of New Jersey and partners that are a nonresident estate or trust are also subject to this State’s gross 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 the amount of income reported by the partnership as “Distributive Share of Partnership Income (loss)” 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 should be entered in Column A, Form NJ-1040NR for nonresident individual partners or on Form NJ-1041 for estate or trust partners, after first deducting any allowable unreimbursed business expenses. See *Adjustments to Income* on page 3. If the adjusted amount is a loss, make no entry on the return. See *Losses* on page 3. Nonresident individual partners must include in Column B, Form NJ-1040NR, and nonresident estate or trust partners must include on Schedule G, Form NJ-1041, the amount from Column B, Schedule NJK-1 after first deducting the *prorated* amount of any allowable unreimbursed business expenses. See *Adjustments to Income* on page 3. The adjusted Column B, Schedule NJK-1 amount is the portion of total distributive share of partnership income allocated to New Jersey and actually subject to tax. If this amount is a loss, make no entry on the return. See *Losses* on page 3.

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. 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.

**Multiple Partnerships** – Nonresident taxpayers with income (loss) from more than one partnership must separately add the amounts of distributive share of partnership income *from all sources* and from *New Jersey sources* (Columns A and B, respectively, of each Schedule NJK-1). Each amount should first be adjusted to reflect the

deduction of any allowable unreimbursed business expenses. See *Adjustments to Income* on page 3. The respective totals should then be entered in the corresponding columns on Form NJ-1040NR or Form NJ-1041 and on Schedule G, Form NJ-1041. If any total is zero or less, make no entry. See *Losses* on page 3.

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 G, Form NJ-1041, for nonresident estate or trust partners. This is the amount on which you will actually be taxed.

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

Example 1 illustrates the proper procedure for determining the amount to report as distributive share of partnership income for both a resident partner and a nonresident partner.

**EXAMPLE 1**

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

**Schedule  
NJK-1**

(Form NJ-1065)

<b>PART II Income Information</b>				
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	772	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
<b>PART III Partner's Information</b>				
1. Nonresident Partner's Share of NJ Tax .....				1. 573
1st Quarter NJ Estimated Tax Payment	2nd Quarter NJ Estimated Tax Payment	3rd Quarter NJ Estimated Tax Payment	4th Quarter NJ Estimated Tax Payment	Other NJ Tax Payments
144	143	143	143	
2. Partner's HEZ Deduction .....				2.
3. Partner's Sheltered Workshop Tax Credit .....				3.

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**

If the above partner is a resident, she will report her distributive share of partnership income on her New Jersey resident income tax return 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

A schedule, similar to the one above, should be attached to the partner’s New Jersey income tax return to explain any adjustments made to the amount reported on Schedule NJK-1 by the partnership.

**Nonresident**

If the above partner is a nonresident, an allocation factor is used to determine her portion of each expense that may be deducted from her New Jersey source income. The allocation factor is computed by dividing the partner’s “Distributive Share of Partnership Income (loss)” in Column B “New Jersey source amounts” by the partner’s “Distributive Share of Partnership Income (loss)” in Column A “total distribution.” In this example the allocation factor is 50% ( $7,712 \div 15,423$ ). She will report her distributive share of partnership income on her New Jersey nonresident income tax return as follows:

	<u>All Sources</u>	<u>New Jersey Sources</u>
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

A schedule, similar to the one above, should be attached to the partner’s New Jersey income tax 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 her nonresident income tax return 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?**

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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 gross 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 3) before being combined with the adjusted income (loss) from any other partnerships and entered on the “Distributive Share of Partnership Income” line of the New Jersey resident return (Form NJ-1040), the New Jersey nonresident return (Form NJ-1040NR), or on the New Jersey fiduciary return (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 13.

A sample Reconciliation Worksheet A appears on page 9; line by line instructions for completing the worksheet begin on page 10.

## 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. \_\_\_\_\_

## 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 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 6, 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 Line 9, 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, a schedule identifying the income or loss must be attached to 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 your share of the amount 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, 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, then a New Jersey depreciation adjustment is required. Use Gross Income Tax Depreciation Adjustment Worksheet [GIT-DEP](#) to calculate the adjustment. Include any net addition adjustment from Worksheet [GIT-DEP](#), if applicable. (See the last page of this publication for how to request Worksheet [GIT-DEP](#) and instructions.)

For gross 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. You will need to obtain information necessary to complete the form 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 gross 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.

**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 gross 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, 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, then a New Jersey depreciation adjustment is required. Use Gross Income Tax Depreciation Adjustment Worksheet [GIT-DEP](#) to calculate the adjustment. Include any net subtraction adjustment from Worksheet [GIT-DEP](#), if applicable. (See the last page of this publication for how to request Worksheet [GIT-DEP](#) and instructions.)

For gross 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. You will need to obtain information necessary to complete the form 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, [Form 501-GIT](#) must be used to calculate the New Jersey Domestic Production Activities

Deduction allowable for gross income tax purposes. In order to complete the form, you must obtain the required information from the partnership and then apply your ownership percentage. [Form 501-GIT](#) can be found on the Division's Web site.

**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 gross income tax purposes. You may deduct any qualified partnership

expenses before including it with other partnership income (loss) on the “Distributive Share of Partnership Income” line of the New Jersey resident return, the New Jersey nonresident return, or the New Jersey fiduciary return. See *Adjustments to Income* on page 3.

Nonresidents whose partnership income was derived from New Jersey sources must include the amount from this line in both Columns A and B of Form NJ-1040NR or on Form NJ-1041 and Schedule G, Form NJ-1041. If the nonresident's partnership income was *not* derived from New Jersey sources, this amount should be included only in Column A of Form NJ-1040NR or on Form NJ-1041.

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

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Under New Jersey gross income tax regulation 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.

## 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.		

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

		<b>Column A Distributive Share of Partnership Income</b>		<b>Column B Net Gain (loss) from Disposition of Assets in Complete Liquidation</b>
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 .....			18.	
(line 15 minus line 16f)				

**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 10.

**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.

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

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**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 13), 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 Form NJ-1040, multiply the amount of distributive share of partnership income 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).

**EXAMPLE 2**

Partnership's fiscal year begins on July 1, 2007, and ends on June 30, 2008. Taxpayer moved out of New Jersey on April 30, 2008 (304 days as a resident during the partnership's fiscal year). This taxpayer's residency percentage would therefore be:

$$305 \div 366 = 83.3\%$$

**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, multiply the amount on Line 17 of your completed Reconciliation Worksheet A by the residency percentage, as determined above, to calculate the portion of your distributive share of partnership income to be included on Form NJ-1040. For more information regarding Reconciliation Worksheet A, see question 2 on page 8.

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."

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 13.

## 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, page 13), 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 to include in Column A, Form NJ-1040NR, multiply the amount of your distributive share of partnership income from everywhere reported in Column A, Schedule NJK-1 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:

$$61 \div 366 = 16.7\%$$

To determine the prorated amount to include in Column B, Form NJ-1040NR, multiply the amount of your distributive share of partnership income from New Jersey sources reported in Column B, Schedule NJK-1, Form NJ-1065 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 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. Enter the result(s) in Column A, Form NJ-1040NR. For more information regarding Reconciliation Worksheet A, see question 2 on page 8, or for more information regarding Reconciliation Worksheet A – Liquidated, see question 3 on page 13.

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

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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 2007 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:

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

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

The usable portion of each loss will also be needed to determine your New Jersey partnership basis (see question 6 on page 20). A worksheet to aid you in calculating the usable portion of each partnership’s loss is provided on page 19 (Worksheet B).

## 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.
<b>Total</b>			A.	C.

**PARTNERSHIPS WITH INCOME:**

	Partnership	FID	Adjusted New Jersey Partnership Income
1			B1.
2			B2.
3			B3.
4			B4.
5			B5.
<b>Total</b>			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.

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

Partnership basis should be computed 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.

- 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.

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

Worksheet C has been included on page 22 to assist you in tracking your basis in your partnership interests from year to year.

**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 2007:

<b>Contributions/(Withdrawals)</b>			
Partnership	A	B	C
2005	\$10,000	\$10,000	\$10,000
2006	—	—	\$ 5,000
2007	—	(\$ 3,000)	—

  

<b>Income/(Loss)</b>			
Partnership	A	B	C
2005	(\$ 2,000)	(\$ 1,500)	(\$ 5,000)
2006	(\$ 5,000)	(\$ 4,000)	(\$ 7,000)
2007	\$15,000	(\$10,000)	(\$20,000)

Income/(loss) reflects the deduction of any unreimbursed business expenses that met the criteria given on page 3, *Adjustments to Income*.

**EXAMPLE 5** (continued)

	<b>Basis Calculation</b>		
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 2005	0	0	0
Income/Used Loss 2006	0	0	0
Income/Used Loss 2007	15,000	(5,000)*	(10,000)*
<b>Basis as of 12/31/07</b>	<b>\$ 25,000</b>	<b>\$ 2,000</b>	<b>\$ 5,000</b>

Since no income was reported to New Jersey in tax years 2005 and 2006, the losses incurred in those years are not included when determining Mary’s basis for New Jersey tax purposes.

\* See question 5 on page 18 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 gross 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 must 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 (1999), 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 “Distributive Share of Partnership Income” 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)

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." These amounts should be reported 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:**

- You have interest in only one partnership
- Purchase price was \$15,000 in 1997
- There were no additional contributions of capital
- There were no withdrawals over your period of ownership
- No income from the partnership was ever reported to New Jersey
- Each year the partnership incurred a loss of \$2,000; the losses were not used for New Jersey income tax purposes
- Schedule NJK-1 received from the partnership for 2007 is marked “Final Return”
- You received nothing in exchange for your interest in the partnership upon dissolution

**BASIS CALCULATION:**

Purchase Price	\$ 15,000
Capital Contributions	0
Withdrawals	(0)
Reported Income	0
	<hr/>
<b>Basis in Partnership</b>	<b><u>\$15,000</u></b>

**GAIN (LOSS) from DISPOSITION of PROPERTY:**

Sale Price	\$ 0
Less Ending Basis	(15,000)
Loss Disp. of Property	<u><u>\$(15,000)</u></u>

The cost basis for the partnership interest in this example is \$15,000. Since you received no consideration for your partnership interest, a \$15,000 loss has been realized 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 you sold your partnership interest for \$50,000.

**GAIN (LOSS) from DISPOSITION of PROPERTY:**

Sale Price	\$ 50,000
Less Ending Basis	(15,000)
Gain Disp. of Property	<u><u>\$ 35,000</u></u>

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.

**EXAMPLE 7A**

FACTS:

- You have an interest in only one partnership
- Purchase price was \$15,000 in 1997
- Additional contributions of capital were \$5,000
- Withdrawals over your period of ownership were \$1,000
- Partnership income \$1,500 in 2005; \$10,000 in 2006; and \$2,000 in 2007
- Partnership incurred a loss of \$2,000 each year (1997 – 2005); the losses were not used for New Jersey income tax purposes
- Interest in the amount of \$100 was reported in each year 1999 – 2004 in the category “Interest Income”
- Schedule NJK-1 received from the partnership for 2007 is marked “Final Return”
- Net gain (loss) from disposition of assets as a result of a complete liquidation was \$10,000
- You received nothing in exchange for your interest in the partnership upon dissolution

BASIS CALCULATION:

Purchase Price	\$ 15,000
Capital Contributions	5,000
Withdrawals	(1,000)
Reported Partnership Income	13,500
Reported Interest Income	<u>600</u>
<b>Basis in Partnership</b>	<b><u>\$ 33,100</u></b>

GAIN (LOSS) from DISPOSITION of PROPERTY:

Sale Price	\$ 0
Less Ending Basis	<u>(33,100)</u>
Loss Disp. of Property	<u>\$ (33,100)</u>

The cost basis for the partnership interest in this example is \$33,100. Since you received no consideration for your partnership interest, a \$33,100 loss has been realized from the dissolution of the partnership which can be used to offset your \$10,000 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	<u>(33,100)</u>
Gain Disp. of Property	<u>\$16,900</u>

The \$16,900 gain can be netted with your \$10,000 gain from disposition of assets as a result of a complete liquidation or any other gains (losses) from the disposition of property that occur in the same tax year.

**EXAMPLE 8A**

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

**Partnership A**

- Purchase price was \$15,000 in 1997
- There were no additional contributions of capital to partnership
- There were no withdrawals over your period of ownership
- No income from partnership A was ever reported to New Jersey
- The partnership incurred a \$2,000 loss each year
- Schedule NJK-1 received from partnership A for 2007 is marked “Final Return”
- You received nothing in exchange for your interest in the partnership upon disposition

**Partnership B**

- Purchase price was \$10,000 in 2003
- There have been no additional contributions of capital
- There have been no withdrawals from this partnership
- Partnership income of \$500 was reported in years 2003 – 2007
- This is an ongoing partnership

**BASIS CALCULATION:**

Purchase Price	\$ 15,000
Capital Contributions	0
Withdrawals	(0)
Used Losses	(2,500)
<b>Basis in Partnership</b>	<u>\$ 12,500</u>

**GAIN (LOSS) from DISPOSITION of PROPERTY:**

Sale Price	\$ 0
Less Ending Basis	(12,500)
Loss from Disp. of Property	<u>\$ (12,500)</u>

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.

**EXAMPLE 8B**

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

**Partnership A**

- Purchase price was \$15,000 in 1997
- Additional contributions of capital were \$5,000
- Withdrawals over your period of ownership were \$1,000
- Losses 1997 – 2005 were \$2,000 each year
- Partnership income \$1,500 in 2006; \$10,000 in 2007 (attributed to Section 1231 gain)
- You sold your partnership interest for \$50,000

**Partnership B**

- Purchase price was \$10,000 in 2003
- There have been no additional contributions of capital
- There have been no withdrawals from this partnership
- Partnership income of \$500 was reported in years 2003 – 2007
- 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	<u>11,500</u>
<b>Ending Basis</b>	<u><u>\$ 29,000</u></u>

**GAIN (LOSS) from DISPOSITION of PROPERTY:**

Sale Price	\$ 50,000
Less Ending Basis	<u>(29,000)</u>
Gain from Disp. of Property	<u><u>\$ 21,000</u></u>

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.

# 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. \_\_\_\_\_

# 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 .....		18.	
(line 15 minus line 16f)			

# 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.
<b>Total</b>			A.	C.

**PARTNERSHIPS WITH INCOME:**

	Partnership	FID	Adjusted New Jersey Partnership Income
1			B1.
2			B2.
3			B3.
4			B4.
5			B5.
<b>Total</b>			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.

# 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)

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." These amounts should be reported 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

### By Phone

- Call the Division of Taxation's Customer Service Center at **609-292-6400**.
- Text Telephone Service (TTY/TDD) for Hard-of-Hearing 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 tax matter and receive a reply through NJ Relay Services (711).

### Online

- Division of Taxation Web site: [www.state.nj.us/treasury/taxation/](http://www.state.nj.us/treasury/taxation/)
- E-mail: [nj.taxation@treas.state.nj.us](mailto:nj.taxation@treas.state.nj.us)
- Subscribe to *NJ Tax E-News*, the Division of Taxation's online information service, at: [www.state.nj.us/treasury/taxation/listserv.html](http://www.state.nj.us/treasury/taxation/listserv.html)

### In Writing

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

## Order Forms and Publications

- 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.
- Call NJ TaxFax at **609-826-4500** from your fax machine's phone.
- Visit the Division of Taxation's Web site: [www.state.nj.us/treasury/taxation/](http://www.state.nj.us/treasury/taxation/)