
Schedule B. Income Statement—Trade or Business Income

Important: You do not need to complete Form 8865, Schedule B, if you have attached a copy of Form 1065, page 1, or Form 1065-B, Parts I and II, filed by the foreign partnership.

All Category 1 filers must complete Form 8865, Schedule B.

Specific Instructions for Schedule B

For specific instructions for Form 8865, Schedule B, use the instructions for Form 1065, lines 1a through 21 (income and deductions). If the foreign partnership files Form 1065-B, use the instructions for Form 1065-B, Parts I and II.



You can view or download the instructions for Form 1065 or Form 1065-B at www.irs.gov/formspubs/. Also, these instructions can be ordered by calling 1-800-829-3676 (1-800-TAX-FORM).

Schedule D. Capital Gains and Losses

Important: All Form 8865 Category 1 filers must complete Schedule D (Form 1065), Capital Gains and Losses, to report sales or exchanges of capital assets, capital gain distributions, and nonbusiness bad debts. See the Instructions for Schedule D (Form 1065). You do not need to complete a separate Schedule D (Form 1065) if you have attached to Form 8865 a copy of the Schedule D from Form 1065 or Form 1065-B filed by the foreign partnership.



You can view or download the Schedule D (Form 1065) and the Instructions for Schedule D (Form 1065) at www.irs.gov/formspubs/. Also, the form and its instructions can be ordered by calling 1-800-829-3676 (1-800-TAX-FORM).

Schedules K and K-1. Partners' Distributive Share Items

Important: You do not need to complete Form 8865, Schedules K or K-1, if you have attached to Form 8865 a copy of the Schedules K or K-1 from Form 1065 or Form 1065-B filed by the foreign partnership.

Schedule K

Form 8865, Schedule K is a summary schedule of all of the partners' shares of the partnership income, credits, deductions, etc. Only Category 1 filers must complete Form 8865, Schedule K.

Schedule K-1

Form 8865, Schedule K-1 is used to report a specific partner's share of the partnership income, deductions, credits, etc.

All Category 1 and 2 filers must complete Form 8865, Schedule K-1 for any direct interest they hold in the partnership. A Category 1 or 2 filer that does not own a direct interest is not required to complete Form 8865, Schedule K-1.

Category 1 filers must also complete Form 8865, Schedule K-1 for each U.S. person that directly owns a 10% or greater direct interest in the partnership.

Provide the partner's beginning and year-end percentage interest in partnership profits, losses, capital, or deductions. These percentages should include any interest constructively owned by the filer.

Complete boxes 1 through 20 for any direct interest that the partner owns in the partnership.

Example. Partner A owns a 45% direct interest in a foreign partnership (FPS). Partner A also owns 100% of the stock of a domestic corporation (DC), which owns a 10% direct interest in FPS. Therefore, Partner A is considered to own a 55% interest in FPS and is thus a Category 1 filer. When Partner A completes Form 8865, Schedule K-1 for itself, Partner A must report the distributive share of items allocated to Partner A's direct interest of 45% but not any items allocated to DC's 10% interest. When Partner A completes Form 8865, Schedule K-1 for DC (which Partner A

must do because DC owns a direct 10% interest), Partner A must report on DC's Form 8865, Schedule K-1 only items allocated to DC's direct 10% interest.

Although the partnership is not subject to income tax, the partners are liable for tax on their shares of the partnership income, whether or not distributed, and must include their share of such items on their tax returns.

Allocations of income, gains, losses, deductions, or credits among the partners generally should be made according to the partnership agreement. See section 704 and the regulations thereunder.

General Reporting Instructions for Form 8865, Schedule K-1

On each Form 8865, Schedule K-1, enter the information about the partnership and the partner in Parts I and II (items A through F). For Form 8865, Schedule K-1, items E and F, see the instructions for the corresponding Schedule K-1 (Form 1065), items J and L in the Instructions for Form 1065 under the heading *Specific Instructions (Schedule K-1 Only)*. In Part III, enter the partner's distributive share of each item of income, deduction, and credit and any other information the partner needs to prepare the partner's tax return.

Item A2

Enter the reference ID number used on Form 8865, item G2(b). For details, see the instructions for item G2(b), earlier.

Codes. In box 11 and boxes 13 through 20, identify each item by entering a code in the column to the left of the dollar amount entry space. These codes are identified on the back of Form 8865, Schedule K-1.

Attached statements. Enter an asterisk (*) after the code, if any, in the column to the left of the dollar amount entry space for each item for which you have attached a statement providing additional information. For those informational items that cannot be reported as a single dollar amount, enter the code and asterisk in the left column and write "STMT" in the dollar amount entry space to indicate the

information is provided on an attached statement.

More than one attached statement can be placed on the same sheet of paper and should be identified in alphanumeric order by box number followed by the letter code (if any). For example: "Box 20, Code T—Depletion information—oil and gas" (followed by the information the partner needs).

Too few entry spaces on Form 8865, Schedule K-1? If there are more coded items than the number of spaces in box 11 or boxes 13 through 20, do not enter a code or dollar amount in the last entry space of the box. In the last entry space, enter an asterisk (*) in the left column and enter "STMT" in the entry space to the right. Report the additional items on an attached statement and provide the box number, the code, description, and dollar amount or information for each additional item. For example: "Box 15, Code J—Work opportunity credit—\$1,000."

Specific Instructions for Schedules K and K-1

For the specific instructions for Form 8865, Schedules K and K-1, see the Instructions for Form 1065. If the foreign partnership files Form 1065-B, use the specific instructions for Form 1065-B, Schedules K and K-1, in the Instructions for Form 1065-B.

Schedule L. Balance Sheets per Books

Important: You do not need to complete Form 8865, Schedule L, if you have attached to Form 8865 a copy of the Schedule L from Form 1065 or Form 1065-B filed by the foreign partnership.

The balance sheets should agree with the partnership's books and records. Attach a statement explaining any differences.

Only Category 1 filers are required to complete Form 8865, Schedule L.

If you answered "Yes" to item H9 on page 1 of Form 8865, you do not have to complete Form 8865, Schedule L.

Schedule L requires balance sheets prepared and translated into U.S. dollars in accordance with U.S. generally accepted accounting principles (GAAP).

Exception. If the partnership or any qualified business unit of the partnership uses the dollar approximate separate transactions method (DASTM), Form 8865, Schedule L, should reflect the tax balance sheets prepared and translated into U.S. dollars according to Regulations section 1.985-3(d).

Specific Instructions for Schedule L

For the specific instructions for Form 8865, Schedule L, see the Instructions for Form 1065. If the foreign partnership files Form 1065-B, use the specific instructions for Form 1065-B, Schedule L, in the Instructions for Form 1065-B.

Schedule M. Balance Sheets for Interest Allocation

All Category 1 filers must complete Form 8865, Schedule M, and it should reflect the book values of the partnership's assets, as described in Temporary Regulations sections 1.861-9T(g)(2) and 1.861-12T. Assets should be characterized as U.S. assets or foreign assets in one or more separate limitation categories as provided in Temporary Regulations sections 1.861-9T(g)(3) and 1.861-12T. The balance sheets should be prepared in U.S. dollars under Temporary Regulations section 1.861-9T(g)(2)(ii).

Exception. If the partnership or any qualified business unit of the partnership uses DASTM, Form 8865, Schedule M should reflect the tax balance sheet prepared in U.S. dollars under Regulations section 1.985-3(d). See Temporary Regulations section 1.861-9T(g)(2)(ii)(A)(2) for more information on DASTM.

Line 2. Enter the partnership's foreign assets according to the following income limitation categories.

- Passive category.
- General category.
- Other (attach statement).

See the instructions for Schedule K (Form 1065), line 16, and section 904(d) for more information.

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

Important: You do not need to complete Form 8865, Schedule M-1, if you have attached to Form 8865 a copy of the Form 8865, Schedule M-1, from Form 1065 or Form 1065-B filed by the foreign partnership.

Form 8865 filers are not required to complete Schedule M-3 (Form 1065), Net Income (Loss) Reconciliation for Certain Partnerships.

Only Category 1 filers are required to complete Form 8865, Schedule M-1. If you answered "Yes" to item H9 on page 1 of Form 8865, you do not have to complete Form 8865, Schedule M-1.

Specific Instructions for Schedule M-1

For the specific instructions for Form 8865, Schedule M-1, see the Instructions for Form 1065. If the foreign partnership files Form 1065-B, use the instructions for Form 1065-B, Schedule M-1.

Schedule M-2. Analysis of Partners' Capital Accounts

Important: You do not need to complete Form 8865, Schedule M-2, if you have attached to Form 8865 a copy of the Schedule M-2 from Form 1065 or Form 1065-B filed by the foreign partnership.

Only Category 1 filers are required to complete Form 8865, Schedule M-2. If you answered "Yes" to item H9 on page 1 of Form 8865, you do not have to complete Form 8865, Schedule M-2.

Specific Instructions for Schedule M-2

For the specific instructions for Form 8865, Schedule M-2, see the Instructions for Form 1065. If the foreign partnership files Form 1065-B, use the specific instructions for Schedule M-2 in the Instructions for Form 1065-B.