

## Compiled by the NAIC Accounting Department Staff

### Page 1, Form 1065 U.S. Return of Partnership

#### General Instructions for all Clubs

Under the heading: If your club does not report taxes on a calendar-year basis, enter the beginning and ending dates of your tax year. If your club started operations in 2011 enter the starting date and 12/31/11. If your club disbanded in 2011, enter 1/1/11 and the final day of the last month you were in operation. Otherwise, leave the dates blank.

**Bold box at top:** Enter the name and address of your partnership.

**Line A:** Enter "Finance."

**Line B:** Enter "Investment Club."

**Line C:** Enter "525990."

**Line D:** Enter your club's tax identification number.

**Line E:** Enter the date your club started doing business.

**Line F:** If you answered "Yes" to Question 6, Schedule B, leave blank.

Otherwise, enter club's total assets at the end of the year.

**Line G:** Check the applicable box. If this is the first year for filing 1065, check "Initial return." If your club has fully dissolved, check "Final return."

**Line H:** Check "Cash."

**Line I:** Enter the total number of schedule K-1s prepared and filed with Form 1065.

**Line J:** Leave blank. Schedules C and M-3 are required if: Total assets at the end of the year are >\$10 million or total gross receipts are >\$35 million.

**Lines 1a-22:** Leave blank. This section is not used in an investment club.

Bottom of page 1: The financial partner or treasurer should sign and date the return as general partner. If a paid preparer has filled out the forms, he or she should also fill out the appropriate section, and you may want to check the box to allow the IRS to speak to your preparer.

### Page 2, Schedule B – Other Information

Schedule B determines whether your club must fill out Schedule B-1; Schedules L, M-1 and M-2 on page 5; Item F on page 1 of Form 1065; or Item L on Schedule K-1. You must answer each item as it pertains to your club. However, we have indicated below the answers that are correct for most clubs. If you are in doubt about your answer, consult the IRS instructions or your tax professional.

**Line 1:** Most clubs will check "Domestic general partnership" box.

**Line 2:** If your club has a "living trust" as a member, check "Yes". Otherwise most clubs will check "No.."

**Lines 3a and 3b:** Most clubs will check “No.” Clubs which consist of family members may have to answer question 3b, “Yes” and complete Schedule B-1.

**Line 4a and 4b:** Most clubs will check “No.” Clubs with members who are in multiple clubs where there is significant overlap in membership between the clubs may have to answer question 4b, “Yes” and complete the table.

**Line 5:** Check “Yes” if Form 8893 or an election statement under Section 6231(a)(1)(B)(ii) was filed by the club. If not, check “No.”

Generally, the tax treatment of partnership items is determined at the partnership level in a consolidated audit proceeding rather than separate proceedings with individual partners. There is an exception to this rule. A "Small Partnership" by definition is any partnership having 10 or fewer partners each of whom is an individual (other than a nonresident alien), a C corporation, or an estate of a deceased partner. Small partnerships are not subject to the rules for consolidated audit proceedings; however by filing Form 8893(Election of Partnership Level Tax Treatment) an election to receive this treatment can be made. Caution: Making this election can bind partners in ways that may not be desirable, and once this election is made it may not be revoked without IRS consent. Please consult your tax advisor for further information.

**Lines 6a, 6b, 6c and 6d :** For most clubs, the answer should be “Yes” to all four items. If that is the case, your partnership is not required to fill out Schedules L, M-1 and M-2 on page four; Item F on page 1; or Item L on Schedule K-1.

**Lines 7-9:** Most clubs will check “No”

**Line 10:** Usually this will be answered “No” by most clubs. If the club held a foreign security account , you would complete Line 10 with the name of the country and a “Yes.” NOTE: Owning a foreign stock through a US broker does not constitute holding a foreign security account.

**Line 11:** Most clubs will check “No”

**Line 12a, 12b and 12c:** Most clubs will check “No” The tax law permits partnerships to make an election to adjust the tax basis of club assets in certain situations. The election may be beneficial in many situations by reducing the club’s taxable income in future years. The election could instead prove detrimental, however, by increasing the complexity of preparing the club’s tax return and in some situations even by increasing future taxable income. The election is made by attaching to the partnership’s tax return a statement signed by a general partner indicating that the partnership has made an election to adjust the basis of its assets under IRS Code Section 754. The partnership’s tax return must also show calculations of the amount of the adjustment and its allocation among the club’s assets. Please see IRS instructions for more detail on transactions involving Section 743(b) and 734(b) basis adjustments. Caution: Once this election is made, the adjustment must be made for all such transactions in the future. NOTE: NONE OF THE INVESTMENT CLUB ACCOUNTING SOFTWARE ON THE MARKET FROM ICLUBcentral OR bivio CAN HANDLE SECTION 754 ELECTIONS CORRECTLY.

**Lines 13-16:** Most clubs will check “No”

**Line 17:** In most cases, Form 8865-Return of U.S. Persons with Respect to Certain Foreign Partnerships will not be required.

**Line 18a, 18b:** Most Clubs will check "No".

**Line 19:** In most cases, Form 5471 Information Return of U.S. Persons With Respect to Certain Foreign Corporations will not be required.

**Bottom of Page Three:** If the answer to Line 6 was "Yes," or if the club does not qualify as a small partnership, the partnership may designate a TMP for the tax year being filed.

#### **Page 4, Schedule K – Partners' Shares of Income, Credits, Deductions, etc.**

From the club's "Distribution of Earnings (Loss) Report" illustrated on page 55 of the NAIC's Accounting Manual and on page 218 of the NAIC Official Guide, or "Allocation of Income and Expense Report" in Club Accounting 3 and Club Accounting Online software programs, or "Member Tax Allocations Report" in the bivio online program enter the total dollar amounts in the appropriate lines of Schedule K as follows:

**Lines 1-4:** Generally not applicable.

**Line 5:** Enter the total dollar amount of taxable interest income, if any.

**Line 6a:** Enter the total dividends received, including qualifying dividends.

**Line 6b:** Enter the total amount of qualifying dividends that are eligible for the reduced 15% (or 0%) tax rate. Qualifying dividends are most dividends received after December 31, 2002 from domestic corporations and qualified foreign corporations. Clubs that invest in mutual funds or REITs will receive information from the payors as to the character of the dividend income. Because the technical definition of qualifying dividends is very complex, further analysis of the club's stock holdings may be necessary in order to appropriately classify your dividend income. Please consult your tax advisor for more information. IRS Publication 17, Your Federal Income Tax for 2011 and Publication 550, Investment Income and Expenses also have additional information on the definition of qualifying dividends. These publications can be accessed from the IRS website, [www.irs.gov](http://www.irs.gov).

**Line 7:** Generally not applicable.

**Line 8:** Enter the total net short-term capital gain or (loss) from line 6 column (f) of Schedule D (Form 1065).

**Line 9a:** Enter the total net long-term capital gain or (loss) that is portfolio income from line 13 column (f) of Schedule D (Form 1065) for assets held over one year, if any.

**Line 9b:** Generally not applicable. However, if your club has invested in precious metals ETFs, you may have an entry here.

**Line 9c:** Report REIT distributions from Form 1099-DIV box 2b.

**Line 10:** Generally not applicable.

**Line 11:** Report and identify other portfolio income or loss on an attachment for line 11. Schedule K-1 entries for line 11 should be coded "A."

**Line 12:** Generally not applicable.

**Line 13a:** Report charitable contributions. Attach a statement that identifies the partnership's contributions for cash contributions using: Code A for cash-50%, Code B for cash-30%, Code C for non-cash contributions-50% and Code E for capital gain property to a 50% organization (30%) contributions if they donate shares of stock. Note: All cash contributions must be supported by a dated bank record or receipt.

**Lines 13b and c:** Generally not applicable. 13b may be applicable if using margin.

**Line 13d:** Enter total deductions and attach an itemized list of the deductions directly related to portfolio income, if any. Use the following codes to categorize the expenses; (K) for deductions related to portfolio income and subject to the 2% of AGI floor, (L) for other deductions related to portfolio income. These codes will be needed for schedule K-1 reporting.

**Lines 14a-14c:** Generally not applicable.

**Lines 15a-15f:** Generally not applicable. However, if your club was subject to backup withholding, enter the amount withheld on line 15f along with code "O".

**Lines 16a through 16n** must be completed whether or not a partner is eligible for the foreign tax credit if the partnership had foreign income, deductions or losses or had paid or accrued foreign taxes. If your partnership had more than one type of income for the country shown on 16a, enter "See attached" and attach a schedule for each type of income for Lines 16c through 16n. Complete the following lines as applicable.

**Line 16a:** Enter the name(s) of the foreign country.

**Line 16b:** Enter the total gross income from all sources in U.S. dollars.

**Line 16c:** Generally not applicable.

**Line 16d:** Enter the total passive income from sources outside the U.S. (Dividends are passive income.)

**Line 16e:** Generally not applicable.

**Line 16f:** Generally not applicable.

**Line 16g and 16h:** Enter the total interest expense and other deductions in U.S. dollars from sources outside the United States at the partner level. Attach a schedule.

**Line 16i, 16j and 16k:** Enter the total deductions and losses in U.S. dollars from sources outside the United States at the partnership level.

**Line 16l:** Check the appropriate box (paid or accrued), enter the total amount of foreign taxes in U.S. dollars. If your broker withheld the tax, check the box "paid."

**Lines 16m-17f:** Generally not applicable.

**Line 18a:** Enter tax-exempt interest income, if any from box 8 of Form 1099-INT.

**Line 18b:** Generally not applicable

**Line 18c:** Enter nondeductible expenses paid or incurred by the partnership, i.e., expenses for food, parties, etc.

**Lines 19a and 19b** are completed only if the partnership had a partner(s) who took a full or partial withdrawal(s) during the tax year. An investment club, by IRS definition, is considered an “investment partnership” and is an exception to the general rule dealing with distributions of marketable securities — Section 731(c). Thus, the cash portion of the withdrawal(s) is placed on Line 19a, while any transfer of marketable securities is entered on Line 19b as “property other than money” at its adjusted basis to the partnership immediately before the distribution. State separately on attachments to Schedule K and the withdrawing partner’s schedule K-1 the partnership’s adjusted basis of those securities and the fair market value of those securities on the date of distribution.

**Line 19a:** Enter the cash portion of any full or partial distribution taken by a partner(s) during the tax year.

**Line 19b:** Enter the securities portion of any full or partial distribution taken by a partner(s) during the tax year. The securities are entered at their adjusted basis to the partnership immediately before the distribution. State separately on an attachment to Schedule K and the withdrawing partner’s schedule K-1 the partnership’s adjusted basis in those securities prior to distribution and the fair market value of those securities on the date of distribution.

**Line 20a:** Enter the sum of investment income included on lines 5, 6a, 7, and 11, of Schedule K.

**Line 20b:** Enter the sum of investment expenses included on line 13d of Schedule K.

**Line 20c:** Generally not applicable.

## **Page 5, Analysis of Net Income (Loss)**

**Line 1:** Enter the sum of income (loss) as requested.

**Line 2:** If the partnership’s principal activity is portfolio activity, classify all partners “active” and enter the amount of income (loss) from Line 1 in line 2a(ii).

**Schedules L, M-1 and M-2** are not required to be completed if the partnership answered “Yes” to Question 6 of Schedule B, which applies to the majority of our investment clubs.

## **Filling out Schedule K-1**

A Schedule K-1 must be filled out for each partner of the club shown on the Distribution of Earnings (Loss) Report. The line numbers on Part III of Schedule K-1 are the same as those on Schedule K of Form 1065. Therefore, the instructions above apply for Lines 1 through 20. Keep in mind that the total of all Schedule K-1s must total by line item to the values reported on Schedule K of Form 1065.

Certain lines on Schedule K-1 contain several different pieces of information. On line 11 and lines 13 through 20, each specific item must be identified by entering a code in the column to the left of the entry space for the dollar amount. These

codes are identified on page 2 of Schedule K-1. For those items that cannot be reported as a single dollar amount, enter the code and an asterisk in the left-hand column and enter "STMT" in the entry space to the right to indicate that the information is provided on an attached statement.

The left-hand portion of Schedule K-1 should be filled out as follows:

**Upper left corner:** If your club does not report taxes on a calendar-year basis, enter the beginning and ending dates of your tax year. If your club started operations in 2011 enter the starting date and 12/31/11. If your club disbanded in 2011, enter 1/1/11 and the final day of the last month you were in operation. Otherwise leave dates blank.

**Upper right corner:** Check "Final K-1" if partner has fully withdrawn from the club.

Part I and Part II should be filled out as follows:

**Line A:** Enter the Partnership's tax identification number.

**Line B:** Enter the Partnership's name, address, city, state, and zip.

**Line C:** Enter the IRS Center where the Partnership's return was filed.

**Line D:** Most clubs will leave this blank.

**Line E:** Enter the Partner's tax identification number.

**Line F:** Enter the Partner's name, address, city, state, and zip code.

**Line G:** Check "General partner or LLC member-manager."

**Line H:** Check "Domestic partner"

**Line I:** Write "Individual", or write the type of entity if the partner is not an individual (e.g. trust, IRA, etc.).

**Line J:** Enter the percent of ownership shown on the "Member Status Report" if using the accounting software. If completing manually, calculate the partner's percentage and enter accordingly.

**Line K:** Most clubs will leave this blank.

**Line L:** Leave blank if you answered "Yes" to Question 6 on Schedule B.

**Line M:** Most clubs will answer "No". Check "Yes" if someone transferred stock to the club, attach a statement showing the property contributed, the date of the contribution, and the amount of any built-in gain or loss.