

Example. Ray earned a \$60,000 salary and owned one passive activity through a 5% interest in the B Limited Partnership. In 2009, he sold his entire partnership interest to an unrelated person for \$30,000. His adjusted basis in the partnership interest was \$42,000, and he had carried over \$2,000 of passive activity losses from the activity.

Ray's deductible loss for 2009 is \$5,000, figured as follows:

Sales price	\$30,000
Minus: adjusted basis	<u>42,000</u>
Capital loss	\$12,000
Minus: capital loss limit	<u>3,000</u>
Capital loss carryover	<u>\$9,000</u>
Allowable capital loss on sale	\$3,000
Carryover losses allowable	<u>2,000</u>
Total current deductible loss	<u>\$5,000</u>

Ray deducts the \$5,000 total current deductible loss in 2009. He must carry over the remaining \$9,000 capital loss, which is not subject to the passive activity loss limit. He will treat it like any other capital loss carryover.

Installment sale of an entire interest. If you sell your entire interest in a passive activity through an installment sale, to figure the loss for the current year that is not limited by the passive activity rules, multiply your overall loss (not including losses allowed in prior years) by a fraction. The numerator of the fraction is the gain recognized in the current year, and the denominator is the total gain from the sale minus all gains recognized in prior years.

Example. John Ash has a total gain of \$10,000 from the sale of an entire interest in a passive activity. Under the installment method he reports \$2,000 of gain each year, including the year of sale. For the first year, 20% (2,000/10,000) of the losses are allowed. For the second year, 25% (2,000/8,000) of the remaining losses are allowed.

Partners and S corporation shareholders. Generally, any gain or loss on the disposition of a partnership interest must be allocated to each trade or business, rental, or investment activity in which the partnership owns an interest. If you dispose of your entire interest in a partnership, the passive activity losses from the partnership that have not been allowed generally are allowed in full. They also will be allowed if the partnership (other than a PTP) disposes of all the property used in that passive activity.

If you do not dispose of your entire interest, the gain or loss allocated to a passive activity is treated as passive activity income or deduction in the year of disposition. This includes any gain recognized on a distribution of money from the partnership that you receive in excess of the adjusted basis of your partnership interest.

These rules also apply to the disposition of stock in an S corporation.

Dispositions by gift. If you give away your interest in a passive activity, the unused passive activity losses allocable to the interest cannot be deducted in any tax year. Instead, the basis of

the transferred interest must be increased by the amount of these losses.

Dispositions by death. If a passive activity interest is transferred because the owner dies, unused passive activity losses are allowed (to a certain extent) as a deduction against the decedent's income in the year of death. The decedent's losses are allowed only to the extent they exceed the amount by which the transferee's basis in the passive activity has been increased under the rules for determining the basis of property acquired from a decedent. For example, if the basis of an interest in a passive activity in the hands of a transferee is increased by \$6,000 and unused passive activity losses of \$8,000 were allocable to the interest at the date of death, then the decedent's deduction for the tax year would be limited to \$2,000 (\$8,000 – \$6,000).

Partial dispositions. If you dispose of substantially all of an activity during your tax year, you may be able to treat the part of the activity disposed of as a separate activity. See *Partial dispositions* under *Grouping Your Activities*, earlier.

How To Report Your Passive Activity Loss

More than one form or schedule may be required for reporting your passive activities. The actual number of forms depends on the number and types of activities you must report. Some forms and schedules that may be required are:

- Schedule C (Form 1040), Profit or Loss From Business,
- Schedule D (Form 1040), Capital Gains and Losses,
- Schedule E (Form 1040), Supplemental Income and Loss,
- Schedule F (Form 1040), Profit or Loss From Farming,
- Form 4797, Sales of Business Property,
- Form 6252, Installment Sale Income,
- Form 8582, Passive Activity Loss Limitations, and
- Form 8582-CR, Passive Activity Credit Limitations.

Regardless of the number or complexity of passive activities you have, you should use only one Form 8582.

Comprehensive Example

The following example shows how to report your passive activities. In addition to Form 1040, Charles and Lily Woods use Form 8582 (to figure allowed passive activity deductions), Schedule E (to report rental activities and partnership activities), Form 4797 (to figure the gain and allowable loss from assets sold that were used in the activities), and Schedule D (to report the sale of partnership interests).

General Information

Charles and Lily are married, file a joint return, and have combined wages of \$132,000 in 2009. They own interests in the activities listed below. They are at risk for their investment in the activities. They did not materially participate in any of the business activities. They actively participated in the rental real estate activities in 2009 and all prior years. Charles and Lily are not real estate professionals.

1. Activity A is a rental real estate activity. The income and expenses are reported on Schedule E. Charles and Lily's records show a loss from operations of \$15,000 in 2009. Their records also show a gain of \$2,776 from the sale in January 2009 of section 1231 assets used in the activity. The section 1231 gain is reported in Part I of Form 4797 and is identified as being from a passive activity (FPA). For 2008, they completed the worksheets for Form 8582 and calculated that \$6,667 of Activity A's Schedule E loss for 2008 was disallowed by the passive activity rules. That loss is carried over to 2009 as a prior year unallowed loss and will be used to figure the allowed loss for 2009.
2. Activity B is a rental real estate activity. Its income and expenses are reported on Schedule E. Charles and Lily's records show a loss from operations of \$11,600 in 2009. For 2008, they completed the worksheets for Form 8582 and calculated that \$8,225 of Activity B's Schedule E loss for 2008 was disallowed by the passive activity rules. That loss is carried over to 2009 as a prior year unallowed loss and will be used to figure the allowed loss for 2009.
3. Partnership #1 is a trade or business activity and is not a publicly traded partnership (PTP). Partnership #1 reports a \$4,000 distributive share of its 2009 profits to Charles and Lily in box 1 of Schedule K-1 (Form 1065). They report that profit on Schedule E. For 2008, they completed the worksheets for Form 8582 and calculated that \$2,600 of their distributive share of the loss from Partnership #1 in 2008 was disallowed by the passive activity rules. That loss is carried over to 2009 as a prior year unallowed loss and will be used to figure the allowed loss for 2009.
4. Partnership #2 is a trade or business activity and also a PTP. In December 2009, Charles and Lily sold their entire interest in Partnership #2. To indicate they made an entire disposition of a passive activity, they enter EDPA on the appropriate lines. They do not report that sale on Form 8582 because Partnership #2 is a PTP. They recognize a long-term capital gain of \$15,300 (\$25,300 selling price minus \$10,000 adjusted basis) that they report on Schedule D. The partnership reports a \$1,200 distributive share of its 2009 losses to them in box 1 of Schedule K-1 (Form 1065). They report that loss on Schedule E. For 2008, they followed the instructions for Form 8582 and calculated that \$2,445 of their distributive share of Partnership #2's 2008 loss was disallowed by the passive activity

rules. That loss is carried over from 2008 and reported on Schedule E as a loss for 2009. (For a discussion of PTPs, see the instructions for Form 8582.)

5. Partnership #3 is a single trade or business activity and is not a PTP. Charles and Lily's distributive share of partnership losses for 2009 reported in box 1 of Schedule K-1 (Form 1065) is \$6,000. Charles and Lily sold their entire interest in Partnership #3 in November 2009. To indicate they made an entire disposition of a passive activity, they enter EDPA on the appropriate lines. They recognize a \$4,000 (\$15,000 selling price minus \$11,000 adjusted basis) long-term capital gain, which they report on Schedule D.

For 2008, they completed the worksheets for Form 8582 and calculated that \$3,000 of their distributive share of the partnership's loss for 2008 was disallowed by the passive activity rules. That loss is carried over to 2009 as a prior year unallowed Schedule E loss.

6. Partnership #4 is a trade or business activity that is a limited partnership. Charles and Lily are limited partners who did not meet any of the material participation tests. Their distributive share of 2009 partnership loss, reported in box 1 of Schedule K-1 (Form 1065), is \$2,400. For 2008, they completed the worksheets for Form 8582 and calculated that \$1,500 of their distributive share of loss for 2008 was disallowed by the passive activity rules. That loss is carried over to 2009 as a prior year unallowed loss and will be used to figure the allowed loss for 2009.

Step One—Completing the Tax Forms Before Figuring the Passive Activity Loss Limits

For 2009, Charles and Lily complete the forms they usually use to report income or expenses from their activities. They enter their combined wages, \$132,000, on Form 1040. They complete Schedule D, line 8, showing long-term capital gains of \$15,300 from the disposition of Partnership #2 and \$4,000 from the disposition of Partnership #3. Partnership #2 is a PTP so it is not entered on Form 8582. The disposition of Partnership #3 is a disposition of an entire interest in an activity with an overall loss of \$5,000 (\$4,000 – \$3,000 – \$6,000) so that partnership also is not entered on Form 8582. They combine the PTP \$1,200 current year loss with its \$2,445 prior year loss and report the combined amount in column (f) on Schedule E, Part II, line 28. They also combine the Partnership #3 \$6,000 current year loss with its \$3,000 prior year loss, and enter the combined amount in column (h) on Schedule E, Part II, line 28, since they have an overall loss from that activity. Normally, current year and prior year losses should be entered on separate lines of Schedule E. For purposes of this example only, the amounts have been combined on one line. They enter the \$4,000 profit from Partnership #1 in column (g). Before completing the rest of Schedule E, Part II, they must complete Form 8582 to figure out how much of

their losses from Partnerships #1 and #4 they can deduct.

They complete Schedule E, Part I, through line 22. Their rental activities are passive so they must complete Form 8582 to figure the deductible losses to enter on line 23.

They enter the gain from the sale of the section 1231 assets of Activity A on Form 4797.

Step Two—Form 8582 and Its Worksheets

Charles and Lily now complete Form 8582 including the worksheets that apply to their passive activities. Because they are at risk for their investment in the activities, they do not need to complete Form 6198 before Form 8582. (The second part of this publication explains the at-risk rules.)

Worksheet 1. Worksheet 1 is for rental real estate activities with active participation. Charles and Lily enter the gains and losses from Activity A and Activity B on Worksheet 1. They enter all amounts from the activities even though they already reported the gain of \$2,776 from Activity A on Form 4797 because all income or loss from these activities must be taken into account to figure the loss allowed.

1. They write "Activity A" on the first line under "Name of activity." Then they enter:
 - a. \$2,776 gain in column (a) from Form 4797, line 2, column (g),
 - b. (\$15,000) loss in column (b) from Schedule E, line 22, column A, and
 - c. (\$6,667) prior year unallowed loss in column (c) from their 2008 worksheets.

They combine the three amounts. The result, (\$18,891), is an overall loss so they enter it in column (e).

2. Charles and Lily write "Activity B" on the second line under "Name of activity." Then they enter:
 - a. (\$11,600) loss in column (b) from Schedule E, line 22, column B, and
 - b. (\$8,225) prior year unallowed loss in column (c) from their 2008 worksheets.

Then they combine these two figures and enter the total loss, (\$19,825), in column (e).

3. They separately add the amounts in columns (a), (b), and (c).
 - a. They enter \$2,776 in column (a) on the *Total* line and also on Form 8582, Part I, line 1a.
 - b. They enter (\$26,600) in column (b) on the *Total* line and also on Form 8582, Part I, line 1b.
 - c. They enter (\$14,892) in column (c) on the *Total* line and also on Form 8582, Part I, line 1c.

4. They combine lines 1a, 1b, and 1c, Form 8582, and put the net loss, (\$38,716), on line 1d.

Worksheet 3. Partnership #1 and Partnership #4 are nonrental passive activities so Charles

and Lily enter the appropriate information about those activities on Worksheet 3 in the same way they reported their rental activities on Worksheet 1. Then they enter the totals on Form 8582, Part I, lines 3a through 3d.

Reporting income from column (d), Worksheets 1 and 3. Activities that have an overall gain in column (d) are not used any further in the calculations for Form 8582. At this point, all income and losses from those activities should be entered on the forms or schedules that would normally be used. Charles and Lily have one activity with an overall gain (\$4,000 – \$2,600 = \$1,400). This is Partnership #1, which is shown in Worksheet 3. They already reported the \$4,000 income from this activity on Schedule E, Part II. They now enter the entire \$2,600 loss on Schedule E, Part II, as well.

Step Three—Completing Form 8582

Next, Charles and Lily complete Form 8582, Part II, to determine the amount they can deduct for their net losses from real estate activities with active participation (Activities A and B). They enter all amounts as though they were positive (without brackets around losses). They then complete Form 8582, Part IV.

- They enter \$38,716 on line 5 since this is the smaller of the loss on line 1d or the loss on line 4.
- They enter \$150,000 on line 6 since they are married and filing a joint return.
- They enter \$138,655, their modified adjusted gross income, on line 7. (See page 4 for discussion of modified adjusted gross income.) The \$138,655 is made up of their wages, \$132,000, plus their overall gain of \$11,655 from Partnership #2, a PTP, less their \$5,000 overall loss from Partnership #3. On Schedule D, they reported long-term gains of \$15,300 from the PTP disposition and \$4,000 from the Partnership #3 disposition. On Schedule E, they combined the PTP 2009 loss of \$1,200 with its 2008 loss of \$2,445, and combined the Partnership #3 2009 loss of \$6,000 with its 2008 loss of \$3,000. Netting these amounts gives them the PTP overall gain of \$11,655 (\$15,300 – \$1,200 – \$2,445) and the Partnership #3 overall loss of \$5,000 (\$4,000 – \$6,000 – \$3,000) that were used in figuring modified adjusted gross income.
- They subtract line 7 from line 6 and enter the result, \$11,345, on line 8.
- They multiply line 8 by 50% and enter the result, \$5,673, on line 9.
- They enter the smaller of line 5 or line 9, \$5,673, on line 10.
- They add the income on lines 1a and 3a and enter the result, \$6,776, on line 15.
- They add lines 10 and 15 and enter the result, \$12,449, on line 16.

Step Four—Completing Worksheet 4

Charles and Lily must complete Worksheet 4 because they entered an amount on Form 8582, line 10, and have two activities, each with an overall loss in Worksheet 1, column (e). Worksheet 4 allocates the amount on line 10 (their special allowance for active participation rental real estate activities) between Activity A and Activity B.

- In the two left columns, they write the name of each activity, A and B, and the schedule and line number on which each activity is reported.
- They fill in column (a) with the losses from Worksheet 1, column (e). They add up the amounts, and enter the result, \$38,716, in the *Total* line without brackets.
- They figure the ratios for column (b) by dividing each amount in column (a) by the amount on the column (a) *Total* line. They enter each result in column (b). The total of the ratios must equal 1.00.
- They multiply the amount from line 10, Form 8582, \$5,673, by each of the ratios in Worksheet 4, column (b) and enter the results on the appropriate line in column (c). The total must equal \$5,673.
- They subtract column (c) from column (a) and enter each result in column (d).

Step Five—Completing Worksheet 5

Worksheet 5 must be completed if any activity has an overall loss in Worksheet 3, column (e), or a loss in Worksheet 4, column (d) (or Worksheet 1, column (e), if Worksheet 4 was not needed). This worksheet allocates the unallowed loss among the activities with an overall loss. Charles and Lily complete Worksheet 5 with the activities from Worksheet 4 and the one activity showing a loss in Worksheet 3, column (e). They write the name of each activity and the schedule or form and the line number on which each loss will be reported in the two left columns of Worksheet 5.

1. In column (a), they enter the losses from Worksheet 3, column (e) and Worksheet 4, column (d). These losses are entered as positive numbers, not in brackets. They add the numbers and enter the total, \$36,943, on the *Total* line.
2. They divide each of the losses in column (a) by the amount on the column (a) *Total* line, and enter each result in column (b). The ratios must total 1.00.
3. Now they use the computation worksheet for column (c) (see the worksheet in the instructions for Form 8582) to figure the unallowed loss to allocate in column (c).
 - a. On line A of the computation worksheet, they enter the amount from line 4 of Form 8582, \$41,216, as a positive number.
 - b. On line B, they enter the amount from line 10 of Form 8582, \$5,673.
 - c. They subtract line B from line A and enter the result, \$35,543, on line C. This is the total unallowed loss.

They multiply line C, \$35,543, by each of the ratios in column (b) and enter the results in column (c). These amounts are the unallowed losses from each activity and must add up to \$35,543.

Step Six—Using Worksheets 6 and 7

Charles and Lily now decide whether they must use Worksheet 6, Worksheet 7, or both to figure their allowed losses. If the loss from any activity entered on Worksheet 5 is reported on only one form or schedule, then Worksheet 6 is used for that activity. If an activity has a loss that is reported on two or more schedules or forms (for example, a loss that must be reported partly on Schedule C and partly on Form 4797), Worksheet 7 is used for that activity. All of the activities Charles and Lily entered on Worksheet 5 will be reported on Schedule E. Therefore, they use Worksheet 6 to figure the allowed loss for each activity.

Worksheet 6. They complete Worksheet 6 with the activities from Worksheet 5.

- They write the name of each activity and the schedule and line number to be used in the two left columns of Worksheet 6.
- In column (a), they enter the total loss for each activity. This includes the current year loss plus the prior year unallowed loss. They find these amounts by adding columns (b) and (c) on Worksheets 1 and 3.
- In column (b), they enter the unallowed loss for each activity already figured in Worksheet 5, column (c). They must save this information to use next year in figuring their passive losses.
- In column (c), they figure their allowed losses for 2009 by subtracting their unallowed losses, column (b), from their total losses, column (a). These allowed losses are entered on the appropriate schedules.

Reporting allowed losses. Charles and Lily enter their allowed losses from Activities A and B on Schedule E, Part I, line 23, because these are rental properties. They report their allowed loss from Partnership #4 on Schedule E, Part II, line 28D.

Step Seven—Finishing the Reporting of the Passive Activities

Charles and Lily summarize the entries on Schedule E, Schedule D, and Form 4797, and enter the amounts on the appropriate lines of their Form 1040. They enter:

- The total Schedule D gain, \$22,076, on line 13, and
- The Schedule E loss, (\$21,094), on line 17.

Charles and Lily are now able to complete their tax return, having correctly limited their losses from their passive activities.

Label

(See instructions on page 14.)

Use the IRS label.

Otherwise, please print or type.

Label HERE

For the year Jan. 1–Dec. 31, 2009, or other tax year beginning , 2009, ending , 20
Your first name and initial Charles Last name Woods
If a joint return, spouse's first name and initial Lily Last name Woods
Home address (number and street). If you have a P.O. box, see page 14. 6925 Country Road Apt. no.
City, town or post office, state, and ZIP code. If you have a foreign address, see page 14. Anytown, VA 22306

OMB No. 1545-0074
Your social security number 123 00 4567
Spouse's social security number 567 00 1234
You must enter your SSN(s) above.

Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund (see page 14) You Spouse

Filing Status

- 1 Single
2 Married filing jointly (even if only one had income)
3 Married filing separately. Enter spouse's SSN above and full name here.
4 Head of household (with qualifying person). (See page 15.) If the qualifying person is a child but not your dependent, enter this child's name here.
5 Qualifying widow(er) with dependent child (see page 16)

Exemptions

6a Yourself. If someone can claim you as a dependent, do not check box 6a
b Spouse
c Dependents: (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) if qualifying child for child tax credit (see page 17)
d Total number of exemptions claimed 2

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see page 22.

Enclose, but do not attach, any payment. Also, please use Form 1040-V.

Table with 2 columns: Line number and Amount. Rows include Wages, salaries, tips, etc. (132,000); Taxable interest; Ordinary dividends; Capital gain or (loss) (22,076); IRA distributions; Pensions and annuities; Rental real estate, royalties, partnerships, S corporations, trusts, etc. (21,094); Social security benefits; Other income; Total income (132,982).

Adjusted Gross Income

Table with 2 columns: Line number and Amount. Rows include Educator expenses; Certain business expenses of reservists, performing artists, and fee-basis government officials; Health savings account deduction; Moving expenses; One-half of self-employment tax; Self-employed SEP, SIMPLE, and qualified plans; Self-employed health insurance deduction; Penalty on early withdrawal of savings; Alimony paid; IRA deduction; Student loan interest deduction; Tuition and fees deduction; Domestic production activities deduction; Add lines 23 through 31a and 32 through 35; Subtract line 36 from line 22. This is your adjusted gross income (132,982).

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 97.

Cat. No. 11320B

Form 1040 (2009)

**SCHEDULE D
(Form 1040)**

Capital Gains and Losses

OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service (99)

▶ **Attach to Form 1040 or Form 1040NR.** ▶ **See Instructions for Schedule D (Form 1040).**
▶ **Use Schedule D-1 to list additional transactions for lines 1 and 8.**

2009
Attachment
Sequence No. **12**

Name(s) shown on return
Charles and Lily Woods

Your social security number
123-00-4567

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-7 of the instructions)	(e) Cost or other basis (see page D-7 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
1					
2 Enter your short-term totals, if any, from Schedule D-1, line 2					
3 Total short-term sales price amounts. Add lines 1 and 2 in column (d)					
4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824					
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1					
6 Short-term capital loss carryover. Enter the amount, if any, from line 10 of your Capital Loss Carryover Worksheet on page D-7 of the instructions					()
7 Net short-term capital gain or (loss). Combine lines 1 through 6 in column (f)					

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold (Mo., day, yr.)	(d) Sales price (see page D-7 of the instructions)	(e) Cost or other basis (see page D-7 of the instructions)	(f) Gain or (loss) Subtract (e) from (d)
8 Partnership #2 EDPA	12-02-03	12-04-09	25,300	10,000	15,300
Partnership #3 EDPA	12-15-04	11-18-09	15,000	11,000	4,000
9 Enter your long-term totals, if any, from Schedule D-1, line 9					
10 Total long-term sales price amounts. Add lines 8 and 9 in column (d).			40,300		
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824					2,776
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1					
13 Capital gain distributions. See page D-2 of the instructions					
14 Long-term capital loss carryover. Enter the amount, if any, from line 15 of your Capital Loss Carryover Worksheet on page D-7 of the instructions					()
15 Net long-term capital gain or (loss). Combine lines 8 through 14 in column (f). Then go to Part III on the back					22,076

**SCHEDULE E
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Supplemental Income and Loss
(From rental real estate, royalties, partnerships,
S corporations, estates, trusts, REMICs, etc.)

OMB No. 1545-0074

2009

Attachment
Sequence No. **13**

▶ Attach to Form 1040, 1040NR, or Form 1041. ▶ See Instructions for Schedule E (Form 1040).

Name(s) shown on return

Charles and Lily Woods

Your social security number

123-00-4567

Part I **Income or Loss From Rental Real Estate and Royalties** **Note.** If you are in the business of renting personal property, use **Schedule C or C-EZ** (see page E-3). If you are an individual, report farm rental income or loss from **Form 4835** on page 2, line 40.

1	List the type and address of each rental real estate property:	2	For each rental real estate property listed on line 1, did you or your family use it during the tax year for personal purposes for more than the greater of: • 14 days or • 10% of the total days rented at fair rental value? (See page E-3)	Yes	No
A	Brick Duplex -- 6924 -- 26 Country Road Anytown, VA 22306				✓
B	Condo -- 6915 Country Road Anytown, VA 22306				✓
C					

Income:	Properties			Totals (Add columns A, B, and C.)
	A	B	C	
3 Rents received	3 25,000	8,300		3 33,300
4 Royalties received	4			4
Expenses:				
5 Advertising	5 600	210		
6 Auto and travel (see page E-4)	6			
7 Cleaning and maintenance	7 1,500	525		
8 Commissions.	8 1,200	420		
9 Insurance	9 2,000	700		
10 Legal and other professional fees	10 1,000	390		
11 Management fees	11			
12 Mortgage interest paid to banks, etc. (see page E-5)	12 9,000	8,510		12 17,510
13 Other interest.	13			
14 Repairs.	14 700	245		
15 Supplies	15 600	210		
16 Taxes	16 2,000	700		
17 Utilities	17 2,400	840		
18 Other (list) ▶ Wages and salaries	18 9,000	3,150		
19 Add lines 5 through 18.	19 30,000	15,900		19 45,900
20 Depreciation expense or depletion (see page E-5)	20 10,000	4,000		20 14,000
21 Total expenses. Add lines 19 and 20	21 40,000	19,900		
22 Income or (loss) from rental real estate or royalty properties. Subtract line 21 from line 3 (rents) or line 4 (royalties). If the result is a (loss), see page E-5 to find out if you must file Form 6198	22 (15,000)	(11,600)		
23 Deductible rental real estate loss. Caution. Your rental real estate loss on line 22 may be limited. See page E-5 to find out if you must file Form 8582 . Real estate professionals must complete line 43 on page 2	23 (6,155)	(3,546)		
24 Income. Add positive amounts shown on line 22. Do not include any losses	24			24
25 Losses. Add royalty losses from line 22 and rental real estate losses from line 23. Enter total losses here	25			25 (9,701)
26 Total rental real estate and royalty income or (loss). Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Form 1040, line 17, or Form 1040NR, line 18. Otherwise, include this amount in the total on line 41 on page 2	26			26 (9,701)

Name(s) shown on return. Do not enter name and social security number if shown on other side.

Your social security number

Charles and Lily Woods

123-00-4567

Caution. The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.

Part II Income or Loss From Partnerships and S Corporations **Note.** If you report a loss from an at-risk activity for which any amount is not at risk, you must check the box in column (e) on line 28 and attach Form 6198. See page E-1.

27 Are you reporting any loss not allowed in a prior year due to the at-risk or basis limitations, a prior year unallowed loss from a passive activity (if that loss was not reported on Form 8582), or unreimbursed partnership expenses? If you answered "Yes," see page E-7 before completing this section. **Yes** **No**

28	(a) Name	(b) Enter P for partnership; S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if any amount is not at risk
A	Partnership #2 (EDPA)	P	<input type="checkbox"/>	10-1672810	<input type="checkbox"/>
B	Partnership #3 (EDPA)	P	<input type="checkbox"/>	10-9876243	<input type="checkbox"/>
C	Partnership #1	P	<input type="checkbox"/>	10-5566650	<input type="checkbox"/>
D	Partnership #4	P	<input type="checkbox"/>	10-7435837	<input type="checkbox"/>

Passive Income and Loss			Nonpassive Income and Loss		
	(f) Passive loss allowed (attach Form 8582 if required)	(g) Passive income from Schedule K-1	(h) Nonpassive loss from Schedule K-1	(i) Section 179 expense deduction from Form 4562	(j) Nonpassive income from Schedule K-1
A	From PTP (3,645)				
B			(9,000)		
C	(2,600)	4,000			
D	(148)				
29a Totals		4,000			
b Totals	(6,393)		(9,000)		
30	Add columns (g) and (j) of line 29a				30 4,000
31	Add columns (f), (h), and (i) of line 29b				31 (15,393)
32	Total partnership and S corporation income or (loss). Combine lines 30 and 31. Enter the result here and include in the total on line 41 below				32 (11,393)

Part III Income or Loss From Estates and Trusts

33	(a) Name	(b) Employer identification number
A		
B		

Passive Income and Loss			Nonpassive Income and Loss		
	(c) Passive deduction or loss allowed (attach Form 8582 if required)	(d) Passive income from Schedule K-1	(e) Deduction or loss from Schedule K-1	(f) Other income from Schedule K-1	
A					
B					
34a Totals					
b Totals					
35	Add columns (d) and (f) of line 34a				35
36	Add columns (c) and (e) of line 34b				36 ()
37	Total estate and trust income or (loss). Combine lines 35 and 36. Enter the result here and include in the total on line 41 below				37

Part IV Income or Loss From Real Estate Mortgage Investment Conduits (REMICs)—Residual Holder

38	(a) Name	(b) Employer identification number	(c) Excess inclusion from Schedules Q, line 2c (see page E-8)	(d) Taxable income (net loss) from Schedules Q, line 1b	(e) Income from Schedules Q, line 3b
39	Combine columns (d) and (e) only. Enter the result here and include in the total on line 41 below				39

Part V Summary

40	Net farm rental income or (loss) from Form 4835. Also, complete line 42 below	40	
41	Total income or (loss). Combine lines 26, 32, 37, 39, and 40. Enter the result here and on Form 1040, line 17, or Form 1040NR, line 18 ▶	41	(21,094)
42	Reconciliation of farming and fishing income. Enter your gross farming and fishing income reported on Form 4835, line 7; Schedule K-1 (Form 1065), box 14, code B; Schedule K-1 (Form 1120S), box 17, code U; and Schedule K-1 (Form 1041), line 14, code F (see page E-8)	42	
43	Reconciliation for real estate professionals. If you were a real estate professional (see page E-2), enter the net income or (loss) you reported anywhere on Form 1040 or Form 1040NR from all rental real estate activities in which you materially participated under the passive activity loss rules . . .	43	

Sales of Business Property
(Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))

OMB No. 1545-0184

2009
 Attachment
 Sequence No. **27**

▶ **Attach to your tax return.** ▶ **See separate instructions.**

Name(s) shown on return <i>Charles and Lily Woods</i>	Identifying number 123-00-4567
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1 Enter the gross proceeds from sales or exchanges reported to you for 2009 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions)	1
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Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year (see instructions)

2	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
	<i>Section 1231 Assets Activity A</i>	<i>01-04-03</i>	<i>01-08-09</i>	<i>6,000</i>		<i>3,224</i>	<i>2,776</i>

3 Gain, if any, from Form 4684, line 43	3
4 Section 1231 gain from installment sales from Form 6252, line 26 or 37	4
5 Section 1231 gain or (loss) from like-kind exchanges from Form 8824	5
6 Gain, if any, from line 32, from other than casualty or theft.	6
7 Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows:	7 <i>2,776</i>

Partnerships (except electing large partnerships) and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.

Individuals, partners, S corporation shareholders, and all others. If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.

8 Nonrecaptured net section 1231 losses from prior years (see instructions)	8
9 Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions)	9

Part II Ordinary Gains and Losses (see instructions)

10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):	

11 Loss, if any, from line 7	11 ()
12 Gain, if any, from line 7 or amount from line 8, if applicable	12
13 Gain, if any, from line 31	13
14 Net gain or (loss) from Form 4684, lines 35 and 42a	14
15 Ordinary gain from installment sales from Form 6252, line 25 or 36	15
16 Ordinary gain or (loss) from like-kind exchanges from Form 8824.	16
17 Combine lines 10 through 16	17
18 For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below:	
a If the loss on line 11 includes a loss from Form 4684, line 39, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 28, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 23. Identify as from "Form 4797, line 18a." See instructions	18a
b Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14	18b

Department of the Treasury
Internal Revenue Service (99)

▶ See separate instructions.
▶ Attach to Form 1040 or Form 1041.

Name(s) shown on return
Charles and Lily Woods

Identifying number
123-00-4567

Part I 2009 Passive Activity Loss

Caution: Complete Worksheets 1, 2, and 3 on page 2 before completing Part I.

Rental Real Estate Activities With Active Participation (For the definition of active participation, see Special Allowance for Rental Real Estate Activities on page 3 of the instructions.)				
1a	Activities with net income (enter the amount from Worksheet 1, column (a))	1a	2,776	
1b	Activities with net loss (enter the amount from Worksheet 1, column (b))	1b	(26,600)	
1c	Prior years unallowed losses (enter the amount from Worksheet 1, column (c))	1c	(14,892)	
1d	Combine lines 1a, 1b, and 1c	1d	(38,716)	
Commercial Revitalization Deductions From Rental Real Estate Activities				
2a	Commercial revitalization deductions from Worksheet 2, column (a)	2a	()	
2b	Prior year unallowed commercial revitalization deductions from Worksheet 2, column (b)	2b	()	
2c	Add lines 2a and 2b	2c	()	
All Other Passive Activities				
3a	Activities with net income (enter the amount from Worksheet 3, column (a))	3a	4,000	
3b	Activities with net loss (enter the amount from Worksheet 3, column (b))	3b	(2,400)	
3c	Prior years unallowed losses (enter the amount from Worksheet 3, column (c))	3c	(4,100)	
3d	Combine lines 3a, 3b, and 3c	3d	(2,500)	
4	Combine lines 1d, 2c, and 3d. If the result is net income or zero, all losses are allowed, including any prior year unallowed losses entered on line 1c, 2b, or 3c. Do not complete Form 8582. Report the losses on the forms and schedules normally used	4	(41,216)	

- If line 4 is a loss and:
- Line 1d is a loss, go to Part II.
 - Line 2c is a loss (and line 1d is zero or more), skip Part II and go to Part III.
 - Line 3d is a loss (and lines 1d and 2c are zero or more), skip Parts II and III and go to line 15.

Caution: If your filing status is married filing separately and you lived with your spouse at any time during the year, **do not** complete Part II or Part III. Instead, go to line 15.

Part II Special Allowance for Rental Real Estate Activities With Active Participation

Note: Enter all numbers in Part II as positive amounts. See page 8 of the instructions for an example.

5	Enter the smaller of the loss on line 1d or the loss on line 4	5	38,716	
6	Enter \$150,000. If married filing separately, see page 8	6	150,000	
7	Enter modified adjusted gross income, but not less than zero (see page 8)	7	138,655	
8	Subtract line 7 from line 6	8	11,345	
9	Multiply line 8 by 50% (.5). Do not enter more than \$25,000. If married filing separately, see page 8	9	5,673	
10	Enter the smaller of line 5 or line 9	10	5,673	

If line 2c is a loss, go to Part III. Otherwise, go to line 15.

Part III Special Allowance for Commercial Revitalization Deductions From Rental Real Estate Activities

Note: Enter all numbers in Part III as positive amounts. See the example for Part II on page 8 of the instructions.

11	Enter \$25,000 reduced by the amount, if any, on line 10. If married filing separately, see instructions	11		
12	Enter the loss from line 4	12		
13	Reduce line 12 by the amount on line 10	13		
14	Enter the smallest of line 2c (treated as a positive amount), line 11, or line 13	14		

Part IV Total Losses Allowed

15	Add the income, if any, on lines 1a and 3a and enter the total	15	6,776	
16	Total losses allowed from all passive activities for 2009. Add lines 10, 14, and 15. See page 11 of the instructions to find out how to report the losses on your tax return	16	12,449	

For Paperwork Reduction Act Notice, see page 12 of the instructions.

Caution: *The worksheets must be filed with your tax return. Keep a copy for your records.*

Worksheet 1—For Form 8582, Lines 1a, 1b, and 1c (See pages 7 and 8 of the instructions.)

Name of activity	Current year		Prior years	Overall gain or loss	
	(a) Net income (line 1a)	(b) Net loss (line 1b)	(c) Unallowed loss (line 1c)	(d) Gain	(e) Loss
Activity A	2,776	(15,000)	(6,667)		(18,891)
Activity B		(11,600)	(8,225)		(19,825)
Total. Enter on Form 8582, lines 1a, 1b, and 1c ▶	2,776	(26,600)	(14,892)		

Worksheet 2—For Form 8582, Lines 2a and 2b (See page 8 of the instructions.)

Name of activity	(a) Current year deductions (line 2a)	(b) Prior year unallowed deductions (line 2b)	(c) Overall loss
Total. Enter on Form 8582, lines 2a and 2b ▶			

Worksheet 3—For Form 8582, Lines 3a, 3b, and 3c (See page 8 of the instructions.)

Name of activity	Current year		Prior years	Overall gain or loss	
	(a) Net income (line 3a)	(b) Net loss (line 3b)	(c) Unallowed loss (line 3c)	(d) Gain	(e) Loss
Partnership #1	4,000		(2,600)	1,400	
Partnership #4		(2,400)	(1,500)		(3,900)
Total. Enter on Form 8582, lines 3a, 3b, and 3c ▶	4,000	(2,400)	(4,100)		

Worksheet 4—Use this worksheet if an amount is shown on Form 8582, line 10 or 14 (See page 9 of the instructions.)

Name of activity	Form or schedule and line number to be reported on (see instructions)	(a) Loss	(b) Ratio	(c) Special allowance	(d) Subtract column (c) from column (a)
Activity A	Sch E, line 23	18,891	.487938	2,768	16,123
Activity B	Sch E, line 23	19,825	.512062	2,905	16,920
Total ▶		38,716	1.00	5,673	33,043

Worksheet 5—Allocation of Unallowed Losses (See page 9 of the instructions.)

Name of activity	Form or schedule and line number to be reported on (see instructions)	(a) Loss	(b) Ratio	(c) Unallowed loss
Activity A	Sch E, line 23	16,123	.436429	15,512
Activity B	Sch E, line 23	16,920	.458003	16,279
Partnership #4	Sch E, line 28D	3,900	.105568	3,752
Total ▶		36,943	1.00	35,543

Worksheet 6—Allowed Losses (See pages 9 and 10 of the instructions.)

Name of activity	Form or schedule and line number to be reported on (see instructions)	(a) Loss	(b) Unallowed loss	(c) Allowed loss
Activity A	Sch E, line 23	21,667	15,512	6,155
Activity B	Sch E, line 23	19,825	16,279	3,546
Partnership #4	Sch E, line 28D	3,900	3,752	148
Total ▶		45,392	35,543	9,849

Worksheet 7—Activities With Losses Reported on Two or More Forms or Schedules (See page 10 of the instructions.)

Name of activity:	(a)	(b)	(c) Ratio	(d) Unallowed loss	(e) Allowed loss
Form or schedule and line number to be reported on (see instructions):					
1a Net loss plus prior year unallowed loss from form or schedule . ▶					
b Net income from form or schedule ▶					
c Subtract line 1b from line 1a. If zero or less, enter -0- ▶					
Form or schedule and line number to be reported on (see instructions):					
1a Net loss plus prior year unallowed loss from form or schedule . ▶					
b Net income from form or schedule ▶					
c Subtract line 1b from line 1a. If zero or less, enter -0- ▶					
Form or schedule and line number to be reported on (see instructions):					
1a Net loss plus prior year unallowed loss from form or schedule . ▶					
b Net income from form or schedule ▶					
c Subtract line 1b from line 1a. If zero or less, enter -0- ▶					
Total ▶			1.00		