

**Memo of Major Changes for Instructions for Schedule C (Form 1065), Additional
Information for Schedule M-3 Filers**

These are new instructions, so there are no major changes to report.



Instructions for Schedule C (Form 1065)

Additional Information for Schedule M-3 Filers

Section references are to the Internal Revenue Code unless otherwise noted.

Schedule C. Additional Information for Schedule M-3 Filers

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

Use Schedule C (Form 1065) to provide answers to additional questions for filers of Schedule M-3 (Form 1065), Net Income (Loss) Reconciliation for Certain Partnerships.

Who Must File

Schedule C (Form 1065) must be filed by all partnerships that file Form 1065, U.S. Return of Partnership Income, and that are required to file Schedule M-3 (Form 1065). Attach Schedule C (Form 1065) to Form 1065.

Specific Instructions

Question 1. For certain transfers that are presumed to be sales, the partnership and the partners must comply with the disclosure requirements in Regs. section 1.707-8. Generally, disclosure is required when:

1. Certain transfers to a partner are made within two years of a transfer of property by the partner to the partnership;
2. Debt is incurred within two years of the earlier of:
 - A written agreement to transfer or
 - A transfer of the property that secures the debt, if the debt, nevertheless, is treated as a qualified liability; or
3. Transactions occur which are the equivalent to those listed in 1 or 2 above.

The disclosure must be made on the transferor partner's return using Form 8275, or on an attached statement providing the same information. When more than one partner transfers property to a partnership pursuant to a plan, the disclosure may be made by the partnership rather than by each partner.

Question 2. Answer "Yes" if this partnership is a partner in another partnership and has received special allocations of income, gain, loss, deduction, or credit from such partnership.

Example. P, a partnership, joins with B, an individual, in forming the PB partnership. P and B each contribute \$50,000 cash to PB partnership. Profits and losses are split 50/50, with the exception of depreciation, which is

allocated 99% to P and 1% to B. P answers "Yes" to question 2 because its 99% allocation of depreciation deductions from PB partnership is disproportionate to its ratio of sharing other items from PB partnership.

Question 5. The term "change in accounting principle" means a change from one generally accepted accounting principle to another generally accepted accounting principle as described in "Statement of Financial Accounting Standards No. 154—Accounting Changes and Error Corrections."

For purposes of this question, answer "Yes" if such a change in accounting principle occurred during the tax year and such change resulted in, or is expected to result in, an effect on the amount of income reported for financial statement purposes.



If the partnership has audited financial statements, any material changes in accounting principle should be identified in footnotes to those statements.

Question 6. File Form 3115, Application for Change in Accounting Method, to request a change in a method of accounting. See the Instructions for Form 3115 for information on requesting a change in accounting method.