

Summary of Changes
(Form 1065 and Schedule D, Schedule K-1 (Form 1065), Schedule L,
Schedules M-1, M-2 and M-3, and Schedule C)

Major Changes to the 2008 Form 1065

We have made several changes to Form 1065. As a result of the changes, Form 1065 is now 5 pages.

Throughout the form, all year references have been updated as appropriate.

On page 1, line G, we have added Checkbox 6 "Technical termination - also check (1) or (2)". This box is checked if the partnership had a technical termination. This box will appear directly underneath Checkbox 1.

Schedule B has been revised. The changes can be arranged in three categories:

- Questions Deleted
- Questions Renumbered/Revised
- Questions Added

Questions Deleted

Questions 2, 3, and 11 that appeared on the 2007 Form 1065 have been deleted from the form.

Questions Renumbered/Revised

Question 4 from the 2007 form is now question 5 on the 2008 form.

Question 5 from the 2007 form is now question 6 on the 2008 form. Additionally, 6b has a revised figure of "\$1 million". Question 6 now lists a fourth condition (6d); specifically, whether or not the partnership is not filing, and is not required to file, Schedule M-3. In the text appearing after 6d, the reference to the Item on Schedule K-1 (Form 1065) has been revised to "Item L".

Question 6 from the 2007 form is now question 16 on the 2008 form. In addition, the references to Form 8804 and 8813 have been

deleted from question 16.

Question 8 from the 2007 form is now question 9 on the 2008 form. In addition, question 9 deleted the reference to section 6111 and added a reference to Form 8918, Material Advisor Disclosure Statement.

Question 9 from the 2007 form is now question 10 on the 2008 form. In addition, question 10 now includes the title of Form TD F 90-22.1.

Question 10 from the 2007 form is now question 11 on the 2008 form. In addition, question 11 now includes the title of Form 3520.

Question 12 from the 2007 form is now question 17 on the 2008 form.

Questions Added

New question 2 asks about the types of partners in the partnership.

New questions 3 and 4 ask for ownership information, regarding both who owns the partnership and what the partnership owns.

New question 8 asks about cancelled or modified debt.

New question 12 asks about section 754 elections, and 743(b) and 734(b) basis adjustments.

New question 13 required the partnership to check the box if it participated in certain types of like-kind exchanges.

New question 14 asks about distributions of interests in partnership property.

New question 15 asks, for partnerships that are required to file Form 8858, the number of Forms 8858 attached to the return.

Major Changes to the Instructions for Form 1065

Page 1. Under "What's New", we removed the items that were no

longer new. We added the following items:

- As a result of the addition of questions to Schedule B, Form 1065 is now 5 pages.
- In Item G, checkbox (6) has been added to indicate a technical termination.
- The automatic extension period for Forms 1065 that are due on or after January 1, 2009, has been shortened from six months for five months. (TD 9407.)
- The Where To File instructions for certain partnerships in Tennessee and Georgia have been revised.
- The Food, Conservation, and Energy Act of 2008 added a new general business credit, the agricultural chemicals security credit. (IRC 450.)
- The Heroes Earnings Assistance and Relief Tax Act of 2008 added a new general business credit, the credit for employer differential wage payments. (IRC 45P.)
- A new code has been added to box 19 of Schedule K-1 (Form 1065). This code is also described in the Schedule K-1 instructions that are part of the 1065 instructions. Code C is used to report distributions of section 737 property.
- A new code has been added to box 20 of Schedule K-1 (Form 1065). This code is also described in the Schedule K-1 instructions that appear as part of the 1065 instructions. Code W is now used to report precontribution gain (loss) relating to certain distributions of section 704(c) property. The former function of code W (reporting "other information"), is now fulfilled by code X. All references to code W and code X have been updated as appropriate.

Page 3. Under "Electronic Filing", we have updated the references to mention Pub. 4164, Modernized e-File (MeF) Guide for Software Developers And Transmitters, and Pub. 4505, Modernized e-File Test Package for Forms 1065/1065-B.

Under "When To File", we rewrote the third paragraph to conform to the language used in IRC 7503.

Also under "When To File", we revised the title of Form 7004, and the applicable time frames for the length of extension of time to file. A similar change was made on page 4, under "Extension of Time To File." (TD 9407.)

Page 4. Under "Where To File", we updated the address information as instructed by a letter from submission processing. If a partnership's principal business, office, or agency is located in Georgia or Tennessee, and the total assets as reported on Form 1065, page 1, Item F are less than \$10 million and Schedule M-3 is not filed, the return will be now be mailed to the Cincinnati Service Center.

In the "Late Filing of Return" text that appears under "Penalties", we deleted the text pertaining to returns required to be filed before December 21, 2007, as the information is no longer relevant. Also, we updated the penalty amount to "\$86", per Section 2 of PL 110-141 and Section 8(b) of PL 110-142.

Page 8. In the box for Form 8886, we deleted the item pertaining to transactions resulting in a tax credit of more than \$250,000. This was removed by TD 9350, effective for transactions entered into on or after August 3, 2007.

Page 14. Under "Item D. Employer Identification Number", we revised the text to conform to the information found in the "EIN Frequently Asked Questions" section of irs.gov. In the "Note", we deleted the text stating the online application process is not available for partnerships in Puerto Rico, and updated the telephone number for partnerships with addresses in foreign countries.

Under "Item G", we revised the text to state that checkbox (6), Technical termination has been added, and that checkbox (6) is to be checked in conjunction with checkbox (1) or checkbox (2).

Page 16. Under "Line 7. Other Income (Loss)", we updated item 4 to reflect the redesign and retitling of Form 6478. Because of changes made to IRC section 40 and IRC section 6426 by The Food, Conservation, and Energy Act of 2008, Form 6478 is undergoing a redesign, and the title has been changed to Alcohol and Cellulosic Biofuel Fuels Credit.

Page 17. Under "Reducing certain expenses for which credits are allowable", we deleted the reference to the Indian employment credit, because the credit does not apply to tax years beginning after December 31, 2007. (IRC 45A(f)) Also, we added a reference for the agricultural chemical security credit (IRC 450) and the credit for employer differential wage payments. (IRC 45P) The changes pertaining to the Indian employment credit and the credit for employer differential wage payments were also made to the text under "Line 9. Salaries and Wages", for the same reasons.

Under "Line 13. Rent", we updated the table to add the inclusion amount for vehicles whose lease term began after 12/31/07, but before 1/1/09. The updated inclusion amount is \$18,500. (RP 2008-22, Table 5.) We deleted from the table the inclusion amount for vehicles whose lease term began after 12/31/98, but before 1/1/03.

Schedule B, pages 20-22. A summary of the questions that were added, deleted, or renumber/revised appears earlier in "Major Changes to the 2008 Form 1065". We will describe the relevant changes in the instructions on a question by question basis.

Questions 3 and 4. Question 3 of the 2007 form has been deleted, so the instructions have been deleted accordingly. Question 4 of the 2007 form is question 5 on the 2008 form, and the instructions have been renumbered accordingly.

We have added detailed instructions for question 3 (divided into question 3a and question 3b) and question 4 (divided into question 4a and question 4b). The questions and instructions pertain to ownership information, both for who owns the partnership and what the partnership owns. The instructions also define the concept of "constructive ownership" as it applies to the questions. In addition, the instructions provide examples on how to answer the questions.

Question 5. We deleted the text that gave small partnerships the ability to elect to be subject to the rules for consolidated audit proceedings by attaching an election statement to the partnership return. Form 8893, Election of Partnership Level Tax Treatment, which has been available since December of 2004, is the form that is filed to make the election, and we retained the reference to Form 8893 in question 5.

Also, in the "Caution" that appears at the end of question 5, we added text to state that small partnerships do not make the election to be subject to the rules for consolidated audit proceedings by designating a tax matter partner on Form 1065. The election is made by filing Form 8893.

Question 6 on the 2007 form. This has been changed to question 16 on the 2008 form, and the instructions have been moved accordingly. See "Question 16", later, for changes made to the instructions.

Question 6 on the 2008 form. Question 5 from the 2007 form is now question 6 on the 2008 form. The 2008 question 6(b) has a revised figure of "\$1 million". Additionally, we updated the instructions to show that there are now four requirements as part of question 6.

Question 8 on the 2007 form. This has been changed to question 9 on the 2008 form, and the instructions have been moved accordingly.

Question 9 on the 2007 form. This has been changed to question 10 on the 2008 form, and the instructions have been moved accordingly.

Question 10 on the 2007 form. This has been changed to question 11 on the 2008 form, and the instructions have been moved accordingly.

Question 12. This new question has extensive instructions. For question 12a, the instructions state when the partnership should check "Yes" to indicate it is making, or had made (and not revoked) a section 754 election.

For question 12b, the instructions state when a partnership should check "Yes" to indicate that it has made an optional basis adjustment under section 743(b) or 734(b) for the tax year. In addition, the instructions state the information that must be provided on the attached statement when a transfer of an interest in the partnership (section 743(b)) or a distribution of property to a partner (section 734(b)) occurs during the partnership's tax year.

For question 12c, the instructions state when a partnership

should check "Yes" to indicate that it had to make a basis reduction under 743(b) or 734(b) because a built-in loss (as defined in section 743(d)) or substantial basis reduction (as defined in section 734(d)) is greater than \$250,000. In addition, the instructions state the information that must be provided on the attached statement when a 743(b) or 734(b) basis adjustment takes place.

Question 14. These instructions clarify what is meant by the use of the terms "undivided interest in partnership property" and "tenancy in common". An example demonstrating when a partnership should answer "Yes" to question 14 is provided.

Question 15. The instructions state the function of Form 8858.

Question 16. This was question 6 on the 2007 form. We have removed the references to Forms 8804 and 8813 to conform to changes made to the Form 1065. Since Form 8805 is the information return (Form 8804 is the transmittal form for Form 8805, and Form 8813 is the payment voucher), only the reference to Form 8805 will be retained in the Form 1065 and its separate instructions.

Page 23. In the "Caution" under "Attached statements", we have deleted the reference to Pub. 1525, as that publication was associated with the Legacy e-file system, which has been discontinued. In its place, we have included a reference to Pub. 4164.

Page 24. Under "Item J. Partner's Profit, Loss, and Capital", we have added text stating that a partner's share of each category must be expressed as a percentage, and the total in each category for the combination of all partners must equal 100%. If the partnership agreement does not express the categories as percentages, then the partnership may use a reasonable method to arrive at a percentage for the purposes of completing item J. We also added a "Caution" to indicate that the instruction provided are for the purpose of completing item J, and should not be relied on for other purposes, unless specifically stated.

Page 28. Under "Noncash contributions (50%) (code C)", we have deleted all references to qualified food inventory that was donated to charitable organizations, and the separate attachment showing the partner's distributive share of such

items. The special rule for contributions of food inventory does not apply for contributions made after 12/31/2007. (IRC 170(e)(3)(C).)

Page 29. Under "Reforestation expense deduction (code R)", we deleted all references pertaining to the exception for timber property located in the Gulf Opportunity Zone. This includes deleting the paragraph entitled "Increased deduction for qualified timber property located in the Gulf Opportunity Zones (GO Zones)." The increased expensing for qualified timber property had a termination date of 01/01/2008. (IRC 1400N(i).)

Page 32. In the section for "Alcohol and cellulosic biofuel fuels credit (code G)", under "Line 15f, Other Credits", we have revised the text to include the new title of Form 6478, and the line number from which the amount reported on Form 6478 should be reported on line 7 of Form 1065. These changes were made necessary because of changes made to IRC section 40 and IRC section 6426 by The Food, Conservation, and Energy Act of 2008. We may need to make additional changes to this paragraph to comply with further changes to Form 6478.

In the section for "Other credits (code P)", we deleted references to the following credits, as they do not apply for tax years beginning after 12/31/2007:

- The qualified railroad maintenance credit (Form 8900) (IRC 45G(f))
- The Indian employment credit (Form 8845) (IRC 45A(f))
- The energy efficient appliance credit (Form 8909) (IRC 45M)

We added references to the following credits, which were enacted in 2008.

- The agricultural chemicals security credit (Form 8931) (IRC 450.)
- The credit for employer differential wage payments (Form 8932) (IRC 45P.)

Page 34. Under "Alternative Minimum Tax (AMT) Items", we

updated the reference to Schedule I (Form 1041), Alternative Minimum Tax (AMT), to show that Schedule I has been moved off of Form 1041, and is now a separate schedule with a new title. We have updated this reference wherever the information appears in the instructions.

Page 35. We have updated the text that appears in "Schedule K-1", in the section "Line 19b. Distributions of other property", under "Distributions". We updated the text to state that in box 19 of the partner's Schedule K-1, the amount of the partner's share of the amount on line 19b (Form 1065) should be reported, using code B or code C, as appropriate. We added instructions for new code C, which is used to report distributions of section 737 property.

Page 37. Under "Unrelated business taxable income (code V)", we added a reference to Publication 598, Unrelated Business Taxable Income for Exempt Organizations.

We added a new section entitled "Precontribution gain (loss) (code W)", to reflect the redesignation of code W to be used to report information attributable to certain distributions of section 704(c) property. This section includes instructions on preparing a statement that will be attached to the contributing partner's Schedule K-1.

With the redesignation of code W, the "other information" is now reported using code X.

Page 39. Under "Line 3. Net Income (Loss) per Books", we revised the text to show that the line 3 net income (loss) amount should come from the partnership's books used in maintaining the partner's capital accounts for purposes of Schedule K-1.

In "Line 6a. Cash", under "Line 6. Distributions", we added text to show that the definition of money in this instance includes marketable securities as described in section 731(a).

Major Changes to 2008 Schedule D (Form 1065), Capital Gains and Losses, and the Instructions for Schedule D (Form 1065)

Starting with the 2008 revision, we have made the Instructions

for Schedule D (Form 1065) a separate product from Schedule D (Form 1065). All year references in the form and instructions have been updated as appropriate. We eliminated the "What's New" section from the instructions, as there is nothing new to report at this time.

Major Changes to the 2008 Schedule K-1 (Form 1065)

Throughout the schedule, we updated year references as appropriate.

Page 1

We added a reference to the instructions for item J of Part II.

Page 2

To conform to changes made to Form 1040, we have revised certain line references. For box 15, code F, the line reference has been updated to "68". For box 15, code O, the line reference has been updated to "62".

For box 15, code K, we have removed the reference to Form 8844, line 3, and have replaced it with a reference to see the partner's instructions.

For box 19, we added code C. Code C is used to report information on distributions subject to section 737.

For box 20, we added a new purpose for Code W and relettered previous Code W as Code X. Code W is now used to report information pertaining to pre-contribution gain (loss) on certain distributions of section 704(c) property.

Major Changes to the Partner's Instructions for Schedule K-1 (Form 1065)

Throughout this document, we have updated at year and line references as appropriate.

Page 1. Under "What's New", we removed the previous year's content, as it is no longer new.

Page 2. Under "Elections", we removed the paragraph pertaining to a partnership changing its tax year and the partner electing to report his or her share of the income attributable to the change ratably over 4 tax years. The 4 year rule applied only to tax years ending before June 1, 2008, so tax year 2007 (whether calendar or fiscal year) was the last year of the income inclusion (RP 2003-79).

Page 5. Under the heading "Modified adjusted gross income limitation" (which appears on page 4), we deleted, from the bulleted list, the bullet point "The tuition and fees deduction". This was done to conform to IRC 222(e).

Under "Part II. Information About the Partner", we added instructions for Item J Percentage Interest in Partnership Profit, Loss, and Capital".

Page 8. Under "Box 12. Section 179 Deduction", we deleted the phrase "New York Liberty Zone" per IRC 1400L(f).

Under "Code C. Noncash contributions (50%)", we deleted the paragraph on food inventory contributions. Per IRC 170(e)(3)(C), this expired on 12/31/2007.

Page 9. Under "Code R. Reforestation expense deduction", we deleted the paragraph pertaining to an increased deduction for timber property located in the GO Zones. Per IRC 1400N(i), this provision had a termination date of 01/01/2008.

Under "Code V. Other deductions", in the second bullet point, we added the phrase "and endangered species recovery expenditures" per PL 110-234, sec. 15303.

Page 10. In the last bullet point under "Code V. Other deductions", we added the phrase "for productions beginning before January 1, 2009. Per IRC 181(f), the deduction does not apply to qualified film and television productions that begin after December 31, 2008.

Under "Code G", we have revised the title and text to reflect the renaming and redesign of Form 6478, Alcohol and Cellulosic Biofuel Fuels Credit.

Under "Code L. Credit for increasing research activities", we have revised the text to refer only to line 1c of Form 3800. In

2008, this credit can only be taken if it comes from a pass-through entity (IRC 41(f)).

Page 11. Under "Code P. Other Credits, we have deleted the following credits, as they have expired.

Indian employment credit (IRC 45A).
Qualified railroad track maintenance credit (IRC 45G).
Energy efficient appliance credit (IRC 45M).

Also, we have added credits enacted in 2008.

Agricultural chemicals security credit (Form 8931) (IRC 450).
Credit for employer differential wage payments (Form 8932) (IRC 45P).

Under "Box 19. Distributions" we have made several changes. Under code A and code B, we have deleted the paragraph pertaining to section 737. On Schedule K-1 (Form 1065), under box 19, code C has been added to report distributions of section 737 property. Therefore, we have added instructions for code C.

Page 13. On Sch K-1 (F 1065), code W has been redesignated "Precontribution gain (loss)". Accordingly, we have updated the instructions for code W to detail the circumstances in which the partnership will use box 20, code W, to report information pertaining to the contributing partner's built-in gain or loss.

With the redesignation of code W, code X has been added and is now used to report "Other information". To the list of other information, we have added (as item 7) instructions for certain partners in farm partnerships that receive conservation reserve program payments that are not subject to self-employment tax. (PL 110-234 sec. 15301).

Major Changes to the 2008 Schedule M-3 (Form 1065)

All year references have been updated as appropriate.

Part I

A rule across the page will separate lines 1 through 3 from lines 4 through 11. A rule across the page will separate lines 4 through 11 from new line 12.

13

Line 4 is revised by renaming existing line 4 as line 4a and by adding a new line 4b. Line 4b is a check box question asking for information about the accounting standard used to determine worldwide consolidated net income or loss.

A note is added to line 11 reminding the partnership that line 11 must equal Part II, line 26, column (a).

A new line 12 is added. New line 12 asks for the amount of total assets and liabilities of all entities included or removed on lines 4 through 7.

Part II

The partnership is given general instructions to attach schedules for lines 1 through 9. The separate line instructions asking for an attached schedule on lines 7, 8, and 9, are deleted.

Line 24 is amended to add a reference to the instructions for the line.

In the note that follows line 26, the page reference to Form 1065 is updated to "page 5". With the addition of questions to Schedule B (Form 1065), the Analysis of Net Income (Loss), line 1, will now be found on page 5.

Part III

Line 30 is amended to clarify that positive amounts from line 30 should be reported on Part II, line 24, as negative and negative amounts should be reported as positive.

Major Changes to the Instructions for 2008 Schedule M-3 (Form 1065)

We have updated the years (as applicable) in the Examples that appear throughout the Instructions.

Due to the addition of line 4b in Part I, we have updated (as appropriate) line references to line 4 to differentiate between line 4a and line 4b

Due to a redesign of Form 1065, the section on Analysis of Net Income (Loss) has moved from page 4 to page 5 of Form 1065 (it still appears in page 4 of Form 1065-B). Throughout the document,

we have revised the text pertaining to Analysis of Net Income to make it clear that it appears on page 5 of Form 1065 and page 4 of Form 1065-B.

Page 1. We have revised the "What's New" section. We have deleted last year's items, as they are no longer new. In their place, we have inserted text about line instructions we have added that pertain to the new lines (Part I, line 4b; and Part I, line 12) on Schedule M-3 (Form) 1065.

Page 2. On the "Adjusted Total Assets Worksheet", on line 8, we revised the text to read "Adjusted Total Assets. Enter the greater of line 6 or line 7". We did this to conform to the general language used when comparing figures from two lines on a worksheet.

Page 4. Under "Schedule M-2" we deleted the sentence stating that the amount from line 3 of Schedule M-2 has to be the same amount that appears on Part I, line 11 of Schedule M-3. This conforms to a similar text change made in the Instructions for Form 1065.

Page 5. In the last paragraph in the second column, and carrying over to the third column, we added instructions related to new line 4b.

Page 8. In the first column, we added instructions for new line 12.

2008 Schedule C (Form 1065)

We are adding Schedule C (Form 1065), Additional Information for Schedule C Filers, and separate Instructions for Schedule C (F 1065). Sch C (F 1065) only filed by partnerships that are also filing Sch M-3 (F 1065). Sch C (F 1065) consists of 6 questions. The instructions for Sch C (F 1065) provide instructions for 4 of the 6 questions on Sch C (F 1065).

The following changes resulted in an overall program decrease of 81,663,189 burden hours:

Form 1065: Removed Schedules B-1, B-2 and B-3. The revised Form 1065 resulted in a decrease of 23 line items, addition of 1 form attachment and 39 code

references.

Form 1065 (Schedule D): Due to a previous oversight in burden computation, 6 line items were deleted.

Form 1065 (Schedule K-1): Added 1 form attachment, deleted 55 code references and deleted 13 lines.

Form 1065 (Schedule M-3): The revised Schedule M-3 resulted in addition of 1 form attachment and 38 code references.

The new burden hours are 721,761,123.