

Completing a Partnership Tax Return for an Investment Club For Tax Year 2010

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. 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 5, 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." Rarely will a club check "Accrual."

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

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 A – Cost of Goods Sold

Leave blank. This section is not used in an investment club.

Page 2, Schedule B – Other Information

Schedule B determines whether your club must fill out Schedules L, M-1 and M-2 on page 4; Item F on page 1 of Form 1065; or Item N 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: Check the "Domestic general partnership" box or "Domestic LLC," determine on how the club was legally formed.

Line 2: Most clubs will check "No."

Line 3: Most clubs will check "No."

Line 4: Most clubs will check “No.”

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 three 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 N on Schedule K-1.

Lines 7-11: Usually these line items will be answered “No” for most clubs. If the club held a foreign security account and received dividends, you would complete Line 9 with the name of the country and a “Yes.”

Line 12: If your club had a partial or full withdrawal by a member during the tax year, or a transfer by death, you would answer “Yes.” 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. Caution: Once this election is made, the adjustment must be made for all such transactions in the future.

Line 13 - 17: Most clubs will check “No.”

Bottom of Page Two: If the answer to Line 5 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 3, Schedule K – Partners’ Shares of Income, Credits, Deductions, etc.

From the club’s “Distribution of Earnings (Loss) Report,” 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 5%) 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.

Line 7: Generally not applicable.

Line 8: Enter the total net short-term capital gain or (loss) from line 5 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 11 column (f) of Schedule D (Form 1065) for assets held over one year, if any.

Line 9b: Generally not applicable.

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.

Line 12: Generally not applicable.

Line 13a: Report charitable contributions.

Lines 13b and c: Generally not applicable.

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.

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.

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 4, 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.

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. 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 check "No."