



Instructions for Schedule P (Form 1120-F)

List of Foreign Partner Interests in Partnerships

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

Future Developments

For the latest information about developments related to Schedule P (Form 1120-F) and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form1120F](https://www.irs.gov/Form1120F).

What's New

New Parts IV and V of Schedule P report information regarding a foreign corporate partner's transfer of an interest in a partnership and the calculation of gain or loss on the transfer when the partnership directly or indirectly either is engaged in the conduct of a trade or business within the United States or holds any U.S. real property interests.

General Instructions

Purpose of Schedule

Schedule P (Form 1120-F) is used to (1) identify and reconcile the foreign corporation's directly held partnership interests with the distributive shares of partnership effectively connected income (ECI), or expenses allocable to ECI, and the foreign corporation's effectively connected outside tax basis in each interest, and/or (2) report information regarding a foreign corporate partner's transfer of an interest in a partnership and the calculation of gain or loss on the transfer when the partnership directly or indirectly either is engaged in the conduct of a trade or business within the United States or holds any U.S. real property interests (see sections 864(c)(8) and 897(g)).

Part I is used to identify all partnership interests the foreign corporation directly owns that give rise to a distributive share of income or loss that is effectively connected with a trade or business within the United States of the foreign corporation.

Part II is used to reconcile the foreign corporation's distributive share of ECI and allocable expenses with the total income and expenses reported to it on Schedule K-3 (Form 1065), Partner's Share of Income, Deductions, Credits, etc. – International.

Part III is used as follows. The corporation's outside basis in its directly held partnership interests that include ECI in the corporation's distributive share is apportioned between ECI and non-ECI under Regulations section 1.884-1(d)(3) to determine the average value treated as a U.S. asset for interest expense allocation purposes under Regulations section 1.882-5. The apportionment of the outside basis to ECI as of the current and prior tax year end is also taken into account in determining the average apportioned value included in the corporation's U.S. assets for purposes of computing the branch profits tax. The U.S. assets and partner share of booked liabilities and interest expense of the partnership are also coordinated with the interest expense allocation computations reported on Schedule I (Form 1120-F).

Parts IV and V are used to report information regarding a foreign corporate partner's transfer of an interest in a partnership and the calculation of gain or loss on the transfer when the partnership directly or indirectly either is engaged in the conduct of a trade or business within the United States or holds any U.S. real property interests. See sections 864(c)(8) and 897(g).

Who Must Complete Schedule P

A foreign corporation that is directly or indirectly engaged in a trade or business within the United States is required to file Schedule P (Form 1120-F) for all directly owned partnership interests that have gross ECI, and/or expenses allocable to gross ECI, included in its distributive share of income reported to the corporation on Schedule K-3 (Form 1065). If the foreign corporation treats any of its distributive share of partnership net income or loss from a partnership that is not engaged in a trade or business within the United States as ECI with another trade or business of the corporation, the corporation's entire distributive share of items of income and expense from any such partnership must also be reconciled between ECI and non-ECI and reported on Schedule P.

A foreign corporation may be engaged in a trade or business within the United States either directly through its own non-partnership related activities or

indirectly, including through the activities of one or more partnerships in which the corporation owns a partnership interest. In addition, if a corporation owns an interest in a partnership that is itself deemed engaged in a trade or business within the United States as a result of the partnership's own directly or indirectly owned interest in another partnership ("lower-tier partnership"), the corporation is also treated as engaged in a trade or business as a result of its direct and indirect ownership of such interests. See section 875(1). The foreign corporation's distributive share of income from a domestic partnership and certain foreign partnership interests is reported to the partner on Schedule K-3 (Form 1065), together with the corporation's allocable share of partnership liabilities. If the partnership is engaged in a trade or business directly or indirectly through a lower-tier partnership and has ECI to report in the distributive share of a foreign partner, it is responsible for making quarterly installment payments of withholding tax under section 1446 on the foreign partner's allocable share of estimated effectively connected taxable income (ECTI) and reporting to the foreign partner, on Form 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax, the amounts of ECTI and section 1446(a) tax withheld for the tax year.

A foreign corporation must also complete Schedule P if it transfers an interest in a partnership that directly or indirectly either is engaged in the conduct of a trade or business within the United States or holds any U.S. real property interests. Unless an exception applies, the transferee of that partnership interest must withhold tax on the amount realized on the transfer and report on Form 8288-A, Statement of Withholding on Certain Dispositions by Foreign Persons, the amount realized and the amount of section 1446(f) tax withheld on the transfer.

Exceptions From Filing Schedule P

Do not file Schedule P if none of the distributive shares from any of the corporation's partnership interests include ECI, or expenses allocable to ECI, and there has not been a transfer of an interest

in a partnership that directly or indirectly either is engaged in the conduct of a trade or business within the United States or holds any U.S. real property interests. A foreign corporation that has ECI reported to it from a partnership is not required to complete Parts II and III if, pursuant to an applicable income tax treaty, none of the corporation's business profits including its ECI from the partnership are attributable to a U.S. permanent establishment, and the corporation files a protective tax return under Regulations section 1.882-4(a)(3)(vi). A foreign corporation that transfers an interest in a partnership that directly or indirectly is engaged in a U.S. trade or business is not required to complete Parts IV and V if, pursuant to an applicable income tax treaty, all of the gain or loss from the transfer of the partnership interest is attributable to assets, other than real property, that do not form part of a U.S. permanent establishment, and the corporation files a protective tax return under Regulations section 1.882-4(a)(3)(vi). If you have ECI, gain, or loss that is exempt pursuant to an applicable income tax treaty, you must still complete Part I. See also the instructions for Form 8833.

Protective election on Schedule P. See *Protective election*, later, for instructions for making a protective partnership outside basis apportionment election with a protective return filing of Form 1120-F.

When and Where To File

Attach Schedule P (Form 1120-F) to the foreign corporation's Form 1120-F income tax return. See the Instructions for Form 1120-F for the time, place, and manner for filing the foreign corporation's income tax return.

Other Forms and Schedules Related to Schedule P

Form 1120-F, Section II. Gross ECI includible in the corporation's distributive share is reportable on Form 1120-F, Section II, lines 3 through 10, in the applicable category of income. Expenses (other than interest expense) that are deductions allocated and apportioned on Schedule P (Form 1120-F) to the partner's ECI are also reported on Form 1120-F, Section II.

Schedule I (Form 1120-F). A portion of the interest expense reportable on Schedule P is includible in the corporation's interest expense allocation computation under Regulations section 1.882-5. The corporation's distributive share of interest expense that is directly allocable to ECI under Regulations section 1.882-5(a)(1)(ii)(B) is reported on Schedule P, line 7, and on Schedule I

(Form 1120-F), line 22. A portion of the corporation's distributive share of interest expense that is reported on Schedule P, line 8, is reported on Schedule I (Form 1120-F), line 9, column (b). The average value of partnership liabilities the corporation includes in the determination of its outside basis for purposes of determining the proportion of the partnership interest treated as a U.S. asset is reported on Schedule P (Form 1120-F), line 11 (Total column). The average value of the partner's outside basis used to determine the proportion of the partnership interest treated as a U.S. asset is reported on Schedule P (Form 1120-F), line 13, and as a U.S. asset on Schedule I (Form 1120-F), line 5, column (b).

Schedule H (Form 1120-F), Part I, Part II, and Part IV. The corporation's distributive share of non-interest expenses included on Schedule P, line 4, is also included in the corporation's overall allocation and apportionment of expenses on Schedule H (Form 1120-F), Part IV, lines 38a through 41, if the partnership books constitute a set(s) of books that are also reportable on Form 1120-F. Schedule L or the partnership interest is recorded on the Schedule L books of the corporation's own separate trade or business within the United States. If the partnership interest is not reported on Schedule L, the distributive share of partnership expenses allocable to the corporation's distributive share of ECI is included on Schedule H (Form 1120-F) in Parts I and II. See the Instructions for Schedule H (Form 1120-F).

Schedule M-3 (Form 1120-F), Part II. The corporation's distributive share of partnership income or loss may be reported on Schedule M-3 (Form 1120-F), Part II, line 9 (domestic partnerships) and line 10 (certain foreign partnerships), in accordance with the corporation's reporting on its applicable financial statements for Schedule M-3 (Form 1120-F) purposes. See the instructions for Schedule M-3 (Form 1120-F), Part II, lines 9 and 10, for the specific reporting requirements.

Form 8990, Limitation on Business Interest Expense Under Section 163(j). Business interest expense includes any interest paid or accrued on indebtedness properly allocable to a trade or business. Business interest expense is generally limited to the sum of business interest income, 30% of the adjusted taxable income, and floor plan financing interest. Form 8990 is required, unless an exception for filing is met. For more information, see section 163(j), Form 8990, and the Instructions for Form 8990.

Part I—List of Foreign Partner Interests in Partnerships

In Part I, list the name, address, and employer identification number (EIN) of each directly owned partnership interest that has ECI included in the partner's distributive share on Schedule K-3 (Form 1065). Also include in the list of partnership interests any interest in a partnership that is not engaged in trade or business within the United States if the corporation treats some or all of its distributive share as ECI with a separate trade or business of its own within the United States. **Do not report on Schedule P** any indirectly owned partnership interests (lower-tier partnership interests) that have income effectively connected with the lower-tier partnership's own trade or business within the United States unless the corporation also owns a direct interest in the lower-tier partnership. The corporation's distributive share as ECI earned through lower-tier partnership interests is includible on the Schedule K-3 (Form 1065) reportable to the corporation by the partnership in which the corporation owns a direct interest, whether or not the directly owned partnership is itself directly engaged in trade or business within the United States.

Schedule P (Form 1120-F) accommodates reporting for four directly owned partnership interests. Complete a separate line in Part I, and the corresponding columns in Parts II and III, for each directly owned partnership interest. If the corporation directly owns more than four partnership interests which are required to be reported on Schedule P (Form 1120-F), report the required information for those additional partnership interests on attached separate sheets using the same size and format as shown on the schedule. Also, in the "Totals" column of Parts II and III, for each line item, enter the sum for all directly owned partnership interests, including those interests reported on attached sheets.

Entities treated as partnerships for tax purposes include limited liability partnerships (LLPs) and limited liability companies (LLCs) that are not classified as corporations for federal income tax purposes and may be domestic or foreign. Do not include any interest in any entity treated as a disregarded entity as described under Regulations section 301.7701-2(c)(2).

Column (d). With respect to each partnership interest, check the "Yes" box if the foreign corporation's distributive share is ECI, or treated as ECI, in whole or in part, with a U.S. trade or business determined under section 875.

Accordingly, with respect to each partnership interest, check the "Yes" box if the foreign corporation is engaged in a U.S. trade or business indirectly through the activities of the partnership. Check the "No" box if the foreign corporation has applied ECI principles solely at the partner level and not as a result of the partnership's activities.

Part II—Foreign Partner Income and Expenses: Reconciliation to Schedule K-3 (Form 1065)

Part II reconciles the partner's ECI to its Schedule K-3 (Form 1065) distributive share from each partnership listed in Part I. The Schedule K-3 lines are grouped for reconciliation of their income and expense in the following manner.

- Schedule P, lines 1 through 6: Total gross income and gross ECI, and related deductions and losses, from Schedule K-3 (Form 1065), Part X.
- Schedule P, line 7: Interest expense directly allocable under Regulations section 1.882-5(a)(1)(ii)(B).
- Schedule P, line 8: Interest expense on U.S.-booked liabilities as described under Regulations section 1.882-5(d)(2)(vii) from Schedule K-3 (Form 1065), Part X, Section 2, line 7, column (b).

Line 3. Gross ECI - Partner determination. See the Instructions for Schedule K-3 (Form 1065), Part X, Section 1, column (b) for information the foreign corporate partner can use to determine the amounts to include on Schedule P (Form 1120-F), Part II, line 3.

Line 6. Total deductions and losses deductible against gross ECI - Partner determination. See the Instructions for Schedule K-3 (Form 1065), Part X, Section 2, column (b) for information the foreign corporate partner can use to determine the amounts to include on Schedule P (Form 1120-F), Part II, line 6.

Line 7. Interest expense directly allocable under Regulations section 1.882-5(a)(1)(ii)(B). On line 7, enter the amount of interest expense that is directly allocable to ECI under Regulations section 1.882-5(a)(1)(ii)(B) and the applicable requirements of Temporary Regulations section 1.861-10T(b) or (c). The amount entered on line 7 is also included on Schedule I (Form 1120-F), line 22.

Line 8. Interest expense on U.S.-booked liabilities as described under Regulations section 1.882-5(d)(2)(vii). On line 8, enter the amount of interest expense that arises from U.S.-booked liabilities as described in Regulations section 1.882-5(d)(2). The amount on line 8 should generally be the same amount reported on Schedule K-3

(Form 1065), Part X, Section 2, line 7, column (b). The amount entered on line 8 is also reported on Schedule I (Form 1120-F), line 9, column (b). A portion of the line 8 amount is also taken into account on Form 1120-F, Section III, Part II, line 8, in determining the corporation's branch interest under Regulations section 1.884-4(b).

Part III—Foreign Partner's Average Outside Basis Under Regulations Sections 1.882-5(b) and 1.884-1(d)(3)

Report in Part III the corporation's outside basis for each partnership interest identified in Part I of this Schedule P (Form 1120-F) for purposes of determining the amount the corporation includes as a U.S. asset in Step 1 of the interest expense allocation under Regulations section 1.882-5. The corporation's outside basis in its partnership interests reported on Schedule P is determined and adjusted under the rules applicable to the determination of the corporation's outside basis in the partnership for branch profits tax purposes under Regulations section 1.884-1(d)(3), except that the amounts entered on lines 9 through 13 are the average values rather than the determination dates used under the section 884 regulations for branch profits tax purposes. If the corporation is not exempt from the branch profits tax under an applicable income tax treaty, attach a statement showing the determination of the corporation's outside basis in accordance with the requirements of lines 9 through 13 for an averaging period that shows the apportioned outside basis for the beginning and ending determination dates of the corporation's tax year. See also section 163(j) for rules on how the trade or business interest limitation may affect outside basis.

Line 9. Section 705 outside basis. Enter on line 9 the corporation's average value of the outside basis (otherwise determined under section 705) of the partnership in the column which corresponds to the line in Part I on which the partnership interest is listed. The average value is determined using the most frequent averaging period for which data is reasonably available. See Regulations sections 1.882-5(b)(3) and 1.882-5(c)(2)(iv).

Lines 10a and 10b. Partner liabilities included in the corporation's outside basis. The corporation's outside basis reported on line 9 is adjusted on lines 10a and 10b to conform the amount of liabilities the corporation includes in the determination of its outside basis to the proportionate amount of the corporation's

distributive share of interest expense with respect to the partnership's liabilities. This adjustment is made only for purposes of determining the corporation's outside basis included in the interest expense allocation and branch profits tax computations. The adjustment is not made for other federal income tax purposes such as for determining the corporation's gain or loss from disposition of the partnership interest.

Line 10a. Adjustment for directly allocable interest. The outside basis is reduced by the average amount of liabilities that give rise to directly allocable interest expense in accordance with Regulations section 1.882-5(a)(1)(ii)(B). Enter the portion of the partnership liability that is subject to the direct interest expense allocation rules under Temporary Regulations section 1.861-10T(b) or (c) and is subject to exclusion from the determination of the corporation's average U.S. asset values under Regulations section 1.882-5. See Temporary Regulations section 1.861-10T(d). Be sure to include amounts from Schedule K-3 (Form 1065), Part X, Section 3, line 3b.

Line 10b. Enter the average amount of the corporation's share of all other partnership liabilities it otherwise takes into account under section 752 in determining its outside basis in its partnership interest.

Line 11. Enter the corporation's average partnership liabilities, or portion thereof, for the year for which the corporation receives a distributive share of interest expense for the year. See Regulations section 1.884-1(d)(3)(vi). The amount on line 11 should generally be the same amount reported on Schedule K-3 (Form 1065), Part X, Section 3, line 3a. Also, enter this line 11 amount on Schedule I (Form 1120-F), line 8, column (b), to the extent applicable in determining the corporation's interest expense deduction under Regulations section 1.882-5.

Line 12. Partner's adjusted average outside basis in partnership. Add lines 10d and 11 and enter the amount on line 12. The amount reported on line 12 is the corporation's adjusted outside basis that is eligible for apportionment between ECI and non-ECI.

Line 13. Partner's outside basis allocable to ECI. Enter on line 13 the corporation's average outside basis reported on line 12 that is treated as a U.S. asset under Regulations sections 1.884-1(d)(3) and 1.882-5. Also enter this line 13 amount on Schedule I (Form 1120-F), line 5, column (b). See Regulations section 1.884-1(d)(3)(i) for the elective requirements for apportioning outside basis on the income or asset method. For purposes of determining the

proportion of the partnership interest that is a U.S. asset, a foreign corporation may elect separately for each partnership interest to use either the asset method or the income method described in Regulations sections 1.884-1(d)(3)(ii) and (iii). See the instructions for line 14 below. If the corporation does not timely elect either method in the first year the corporation has a distributive share of ECI from the partnership, the Director of Field Operations may make the election on behalf of the corporation. See Regulations section 1.884-1(d)(3)(v).

Note. The required timely filed election under Regulations section 1.884-1(d)(3)(iv) for apportioning outside basis between ECI and non-ECI also applies to lower-tier partnership interests that are not required to be identified and reconciled to Schedule K-3 (Form 1065) on Schedule P (Form 1120-F).

Line 14. Outside basis election method. Check either the "income" box or the "asset" box on line 14 to indicate the elective outside basis apportionment method used to determine the amount of the corporation's outside basis in its partnership interests apportioned to ECI and reported on line 13. The allocation method is subject to a 5-year minimum period election that must be made in the first year the partner has a distributive share of ECI included in the income reported on Schedule K-3 (Form 1065). The elective method chosen must be used for both branch profits tax and interest expense allocation purposes during the same 5-year minimum period. See Regulations section 1.884-1(d)(3)(iv).

Asset method. In general, a partner's interest in a partnership shall be treated as a U.S. asset in the same proportion that the sum of the partner's proportionate share of the adjusted bases of all partnership assets as of the determination date bears to the sum of the partner's proportionate share of the adjusted bases of all partnership assets as of the determination date. The proportion of U.S. assets to total assets of the partnership is determined as if the partnership were a foreign corporation engaged in a trade or business within the United States. Generally, a partner's proportionate share of a partnership asset is the same as its proportionate share of all items of income, gain, loss, and deduction that may be generated by the asset. Use amounts from Schedule K-3 (Form 1065), Part X, Section 3, lines 2a and 2b to calculate the asset ratio that is applied to the Schedule P, line 13 amount. See Regulations section 1.884-1(d)(3)(iii)(B) for non-uniform treatment of certain partnership items.

Income method. Under the income method, a partner's interest in a partnership shall be treated as a U.S. asset in the same proportion that its distributive share of partnership ECI for the partnership's tax year that ends with or within the partner's tax year bears to its distributive share of all partnership income for that tax year. Use amounts from Schedule K-3 (Form 1065), Part X, Section 3, lines 2a and 2b to calculate the asset ratio that is applied to the Schedule P, line 13 amount.

Protective election. If the corporation files a protective tax return under Regulations section 1.882-4(a)(3)(vi), and the partnership is not engaged in a trade or business within the United States or does not have business profits attributable to a U.S. permanent establishment, the corporation need not file Schedule P and report its distributive share of income and expenses with its Form 1120-F for purposes of outside basis apportionment. However, if it is later determined that the corporation's distributive share of partnership income is ECI with respect to a trade or business of the corporation, the corporation will have failed to make a timely income method or asset method election with respect to such partnership for outside basis apportionment purposes if no other election disclosure is made. To preserve the right to allocate and apportion its outside basis under a chosen method, the corporation may make a protective election by completing Part I, and Part III, line 14, of Schedule P, and including it with the protective return filing of Form 1120-F. The protective election is effective only for the year in which the protective election is also the first year in which the corporation's distributive share is in fact ECI with a trade or business of the corporation within the United States. The corporation need not complete Part II, or Part III, lines 9 through 13, with the protective election.

Parts IV and V

Section 864(c)(8) provides that if a foreign transferor owns, directly or indirectly, an interest in a partnership that is engaged in the conduct of a trade or business within the United States, gain or loss recognized by the foreign transferor on the transfer of all (or any portion) of the interest is treated as effectively connected gain or effectively connected loss, limited to the partner's allocable share of gain or loss on a deemed sale gain or loss of the partnership's U.S. trade or business assets. A transfer means a sale, exchange, or other disposition, and includes a distribution from a partnership to a partner to the extent that gain or loss is recognized on the distribution, as well as a transfer treated as a sale or exchange

under section 707(a)(2)(B). This requirement applies to transfers that occurred on or after November 27, 2017.

Similarly, section 897(g) requires that if a foreign corporation disposes of an interest in a partnership that directly or indirectly holds U.S. real property interests, the amount received that is attributable to the partnership's U.S. real property interests is considered received from the sale or exchange of U.S. real property interests. As a result, that portion of the gain or loss must be included in determining the foreign corporation's U.S. trade or business income.

Complete Parts IV and V only if the foreign corporation transferred a partnership interest subject to section 864(c)(8) or 897(g).



Do not report on Part IV the transfer of any partnership interest listed in Part I for which the "No" box was checked in column (d). The transfer of that partnership interest may, however, be subject to tax under another provision of the Internal Revenue Code.

Complete a separate set of entries in Parts IV and V for each such transfer. When completing Parts IV and V, the foreign corporation should use the information from Part XIII of the Schedule K-3 (Form 1065) that was issued by the partnership. If the corporation did not receive a Schedule K-3 (Form 1065), Part XIII from the partnership, the corporation will need to contact the partnership to receive the relevant information to complete lines 4, 6, 7, and 10 of Part V.

If the corporation is taking a treaty-based return position with respect to any amount reported on Part V, it must attach Form 8833 to Form 1120-F and provide a detailed explanation.

Part IV—Foreign Partner's Interests in Partnerships Transferred During Tax Year

Use a separate line for each partnership interest transferred during the year. If multiple interests in the same partnership were transferred during the year, report each on a separate line. For each entry in Part IV, complete an entry in Part V. Report the following information in each column of Part IV.

Column (a). Before completing column (a), complete a separate line on Part I for each partnership whose interest was not otherwise required to be reported under those instructions if (1) the transfer of the interest resulted in gain or loss under section 864(c)(8) or Regulations section 1.864(c)(8)-1, or (2) the transfer of the

interest resulted in gain or loss solely under section 897(g). Enter the letter corresponding to the name of the partnership from Part I whose interest was transferred.

Columns (b)(1) and (b)(2). Enter either the percentage interest in the partnership or the number of units in the partnership that the partner transferred in (b)(1) or (b)(2), respectively. If the foreign corporation is treated as transferring an interest in the partnership because it received a distribution but its ownership interest in the partnership remains unchanged, enter zero in the relevant column for how the interests are denominated.

Column (c). Enter the date(s) the partnership interest was acquired. If the partnership interest you transferred was obtained through multiple acquisitions, you must report the transfer of each acquired interest with its respective acquisition date in column (c) on a separate line. Thus, each reported transfer may result in recognized short-term gain (or loss) and long-term gain (or loss), as appropriate.

Column (d). Enter the date the partnership interest was transferred. Also, complete the information required in Part V of Schedule P.

Part V—Foreign Partner's Gain or Loss on Transfer of Partnership Interests

Line 1. Enter the amount realized from the transfer of the partnership interest. The amount realized includes the amount of cash paid (or to be paid), the fair market value of other property transferred (or to be transferred), the amount of any liabilities assumed by the transferee or to which the partnership interest is subject,

and the reduction in the transferor's share of partnership liabilities. In the case of a distribution, the amount realized is the sum of the amount of cash distributed (or to be distributed), the fair market value of property distributed (or to be distributed), and the reduction in the transferor's share of partnership liabilities.

Line 2. Enter the corporation's outside adjusted basis, as defined under section 705(a), in its partnership interest as of the date of the transfer. See section 705(a) for the determination of the adjusted basis of a partnership interest. If the corporation did not transfer its entire interest in the partnership, enter the corporation's adjusted basis in the portion of the partnership interest that was transferred.

Line 3. Subtract line 2 from line 1.

Line 4. Enter the amount from Schedule K-3 (Form 1065), Part XIII, line 1.

Line 5. Subtract line 4 from line 3. If line 4 is less than zero (that is, a loss), treat the number entered on line 4 as positive and add that number to the amount reported on line 3. Enter the result on line 5.

Line 6. Enter the amount from Schedule K-3 (Form 1065), Part XIII, line 2.

Line 7. Enter the amount from Schedule K-3 (Form 1065), Part XIII, line 3.

Line 8. Enter the smaller of line 4 or line 6. When figuring which amount is smaller, treat both amounts as positive numbers. However, enter zero on line 8 if either of the following is true.

- Line 4 is zero or less and line 6 is greater than zero.
- Line 4 is greater than zero and line 6 is zero or less.

Report this portion of the transfer on Form 4797, Part II, line 10. Enter the information from Part IV in columns (a) through (c) of Form 4797, line 10. Enter in columns (d) and (f) of Form 4797, line 10, the amounts from lines 1 and 2 of Part V, respectively. See the Instructions for Form 4797 for additional information.

Line 9. Enter the smaller of line 5 or line 7. When determining which is amount is smaller, treat both amounts as positive numbers. However, enter zero on line 9 if either of the following is true.

- Line 5 is zero or less and line 7 is greater than zero.
- Line 5 is greater than zero and line 7 is zero or less.

Report this portion of the transfer on Form 8949, Part I, if short term capital gain or loss and Part II, if long term capital gain or loss, checking box (C) on Part I or box (F) on Part II, as applicable. Enter the information from Part IV in columns (a) through (c) of Form 8949. Enter in columns (d) and (e) of Form 8949 the amounts from lines 1 and 2 of Part V, respectively. Enter the amount from line 9 of Part V in column (h). Finally, enter in column (g) as an amount of the adjustment the difference between outside gain (column (d) minus column (e)) and recognized capital gain (column (h)). If this is an installment sale, use Form 6252.

Line 10. Enter the amount from Schedule K-3 (Form 1065), Part XIII, line 4. Complete this line if the partnership is deemed to have sold only U.S. real property interest(s) as defined under section 897(c)(1). Under these circumstances there should be no entries on lines 1 through 3 of Schedule K-3 (Form 1065), Part XIII. Enter this amount on Form 8949, Form 4797, and Schedule D as appropriate.