

# ***LINE BY LINE INSTRUCTIONS FOR SCHEDULE A***

If, because of Federal reporting rules, the partnership's Federal ordinary income (loss) reported on Line 1, Schedule K, Federal Form 1065, does not include all income, gain and loss earned in the ordinary course of business, complete Schedule A to ensure that "New Jersey Net Ordinary Income (Loss) from Trade or Business Activities" (Line 1, Form NJ-1065) is properly reported.

## **PART I**

### **Column A**

**Lines 2 - 9** - Enter on each line the amount of income, gain or loss reported on the corresponding line of Schedule K, Federal Form 1065.

### **Column B**

#### **Line 1 - Ordinary Income (Loss)**

Enter on this line the amount of ordinary income (loss) reported on Line 1, Schedule K, Federal Form 1065.

**Lines 2 - 9** - Enter only the portion of each amount reported in Column A that was earned in the ordinary course of business. Any income, gain or loss which is not directly attributable to the conduct of a trade or business cannot be included here and must be reported in Column C.

**Line 10** - Add the amounts reported on Lines 1-9, Column B and enter here, as well as Line 1, Form NJ-1065.

**Interest and Dividends** - Enter only the portion of your interest and dividend income which was derived in the conduct of a trade or business. Such income is deemed to have been earned in the ordinary course of business if it is:

- (1) derived from loans made in the ordinary course of a trade or business of lending money;
- (2) derived from the short term investment of necessary working capital;
- (3) derived from accounts receivable or installment obligations, but only where credit is ordinarily offered to customers;
- (4) derived from investment requirements imposed by law, deposits made in the ordinary course of business, or interest or dividend-bearing contracts held in the ordinary course of business; or
- (5) derived in the ordinary course of trading or dealing in any property which generates such income and such activity constitutes the conduct of a trade or business.

If you enter any amount of dividends or interest in Column B explain and specify your reason for doing so in Part II, below.

**Royalty Income** - Enter only the portion of your royalty income and income derived from patents and copyrights which was earned in the ordinary course of a trade or business of licensing intangible property. The partnership is considered to be engaged in a trade or business of licensing intangible property only if the taxpayer created the property or performed substantial services or incurred substantial costs with respect to the development or marketing of such property.

**Short-term and Long-term Capital Gain (Loss)** - Enter only the portion of your capital gain (loss) which was realized in the conduct of a trade or business. Such gain (loss) is not deemed to have been earned in the ordinary course of business unless the gain (loss) is realized by the partnership: (1) in the ordinary course of trading or dealing in such property and such activity constitutes the conduct of a trade or business; or (2) from the sale, exchange or disposition of property which constitutes the partnership's stock-in-trade, inventory or property held **primarily** for sale to customers in the ordinary course of a trade or business.

In no case can the amounts reported as net short-term and long-term capital gain (loss) include gain (loss) from the sale, exchange or disposition of IRC Section 1231 property.

### **Column C**

Subtract the amounts entered in Column B from the amounts entered in Column A and enter the results in Column C.

### **Column D**

Each amount reported in Column C must be reported on Form NJ-1065 according to its character and cannot be included in "New Jersey Net Ordinary Income (Loss) from trade or business activities" (Line 1, Form NJ-1065). Refer to the specified Form NJ-1065 "Line by Line" instructions to determine on which line of Form NJ-1065 the amounts reported in Column C are to be entered.

### **Lines 7 and 8 - Other Portfolio and Other Income**

If you entered an amount on Line 7 or 8, Column C, you must determine the category in which the income must be reported. If you determine that such income is taxable under the Gross Income Tax Act but no separate line is provided on Form NJ-1065, such income must be reported on Line 18, Form NJ-1065. If an amount is reported on Line 18, Form NJ-1065, a schedule must be attached identifying the category or categories of income to which such amount belongs.

## **PART II**

If Schedule A is completed, the partnership must provide explanation detailing why income, gain or loss not included in ordinary income (loss) on Line 1, Schedule K, Federal Form 1065 should be included in "New Jersey Net Ordinary Income (Loss) from trade or business activities", Line 10, Column B, Schedule A of the Form NJ-1065.