

# Partnership Income

## Understanding Income Tax



New Jersey's bird is the Eastern Goldfinch, as seen here on the left.

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A photograph of three birds perched on a wooden branch. On the left is a bright yellow bird with black wings. In the center is a small brown and white bird. On the right is a larger grey and white bird. The background is a soft, out-of-focus green. A semi-transparent white box is overlaid on the image, containing the title text.

## Partnership Income Understanding Income Tax

### Determining Partnership Income

Partnership income is reported as one category of income on the partner's New Jersey Income Tax return rather than in multiple categories. For example, interest, dividends, rents, gains, or losses earned by a partnership are combined with federal ordinary income (loss) to determine New Jersey partnership income (loss). This bulletin explains how to determine the proper amount to report as your share of partnership income on your New Jersey Income Tax return when:

1. You receive an appropriate Schedule NJK-1, Form NJ-1065 from your partnership(s);
2. You do not receive a Schedule NJK-1 from your partnership(s); or
3. You were a resident of New Jersey during only part of the year.

It also describes the ownership basis in a partnership for the purpose of calculating a gain (loss) from the sale of a partnership interest.

(See [Income from S Corporations](#) for the procedure on reporting income from S corporations.)

### Definitions

#### Partnership

Any *unincorporated* organization, syndicate, group, pool, or joint venture, through which a business, financial operation, or venture is carried. This does not include a corporation, trust, or estate as defined by the New Jersey Gross Income Tax Act. The Act allows only entities that qualify for and elect to be treated as a partnership for federal tax purposes, and are in business, to be treated as partnerships. Examples of such entities include limited liability companies (LLCs) and limited liability partnerships (LLPs).

#### Partner

The owner of a partnership interest. This includes a taxpayer subject to New Jersey Income Tax who is a member of a partnership, or other unincorporated entity of the partnership, for purposes of determining the share of partnership income distributed to the owners (distributive share).

#### Privilege period

The calendar year or fiscal accounting period for which a tax is payable.

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## Partnership Income Understanding Income Tax

### Basis

The ownership basis represents how much money and other assets an owner invested in the partnership. Additional investments and profits derived from the partnership increase the owner's basis, while losses or cash withdrawals from the partnership reduce the basis. When investors sell their interest in the partnership, their profit is calculated by subtracting their basis from the sale proceeds.

### Partnerships' Filing Requirements

Every partnership having a New Jersey resident partner, or deriving income (loss) from New Jersey sources, must file a New Jersey partnership return, [Form NJ-1065](#). A partnership that has 10 or more partners must file Form NJ-1065 and make payments electronically. A partnership, regardless of the number of partners, must also file and pay electronically if it:

- Is required to remit tax based on any nonresident partner's allocable share of New Jersey partnership income; **and**
- Uses the services of a paid preparer

The partnership is required to issue Schedule NJK-1, Form NJ-1065, to each member. The Schedule shows that particular partner's distributive share of the partnership's income (loss), pension, and net gain (loss) from the sale of assets as a result of a complete liquidation.

### Payment Requirements

Each entity that is classified as a partnership for federal income tax purposes may be required to:

- Make a payment of \$150 for each owner of an interest in the entity, up to a maximum of \$250,000 if the entity has more than two owners and any income, loss, or expense derived from New Jersey sources. We also require a 50% installment payment, unless it is the partnership's final year of operation;
- Make a tax payment on behalf of all nonresident partners. We will credit the tax paid by the partnership to the accounts of the nonresident partners; and



## Partnership Income Understanding Income Tax

- Make a quarterly tax payment on behalf of all nonresident partners that is equal to 25% of the tax due, on or before the 15th day of the fourth, sixth, and ninth month of the privilege period. The entity also must make a payment on or before the 15th day of the first month following the close of the privilege period. We will credit these installment payments to the accounts of the nonresident partners in proportion to each nonresident partner's share of ownership.

### Adjustments to Income

You can deduct certain qualified, unreimbursed business expenses from the distributive share of partnership income amount(s) reported to you by your partnership(s) on Schedule NJK-1 (or from the amount determined on Reconciliation Worksheet A).

After you make any necessary adjustments to each distributive share of partnership income amount, you must enter the adjusted amount(s) on Schedule NJ-BUS-1. Then, the net amount(s) are totaled and entered on your personal New Jersey resident return ([Form NJ-1040](#)), nonresident return ([Form NJ-1040NR](#)), or fiduciary return ([Form NJ-1041](#)).

If the adjusted net total is zero or less, make no entry on Form NJ-1040, or enter zero in Columns A and B, Form NJ-1040NR or on Form NJ-1041. (See [Losses](#) below.)

To qualify as deductible, costs or expenses must meet **all** of the following criteria:

- Incurred primarily and directly in the pursuit of business income; and
- Incurred as common and accepted practice in that field of business; and
- Required for and appropriate to the intended business purpose; and
- Reasonable in relation to the intended business purpose.

You can only deduct ordinary business costs and expenses. You are not allowed to deduct expenses that were not incurred in the conduct of the trade or business, nor are you able to take a deduction based on income. The determination of whether a business expense is ordinary is based on the facts and circumstances of the expense. The burden is on you to demonstrate to our satisfaction that the cost or expense is deductible.

You can deduct investment interest expense you incurred to acquire a partnership interest from your distributive share of partnership income.

**If you are a New Jersey resident**, you can deduct the full amount of qualified, unreimbursed business expenses from your distributive share of partnership income.



## Partnership Income Understanding Income Tax

**If you are a New Jersey nonresident**, you also can deduct the full amount of qualified, unreimbursed business expenses from your distributive share of partnership income from all sources. However, you must prorate the amount of your qualified, unreimbursed expenses for each partnership to determine the portion attributable to (and deductible from) your distributive share of partnership income derived from New Jersey sources.

Calculate the deductible portion of qualified expenses by multiplying the full amount of the expense by the ratio of New Jersey source partnership income to total partnership income:

Line 4, Column B, Schedule NJK-1  
Line 4, Column A, Schedule NJK-1

When you make adjustments to the amount of distributive share of partnership income reported on Schedule NJK-1 or Reconciliation Worksheet A, you must enclose a separate schedule detailing the nature and amount of each expense deducted for the New Jersey resident, nonresident, or fiduciary return, along with a copy of all Schedule NJK-1(s) and/or Reconciliation Worksheet A(s).

### Losses

You cannot offset a loss in one category of income against income in a different category. You cannot carry losses forward or backwards from one year to another on your Income Tax return.

If the partnership reports a loss to you or if a loss occurs as a result of adjustments for qualified, unreimbursed business expenses, you will enter the loss for that partnership on Schedule NJ-BUS-1 and use it to offset income from other partnerships. If the net amount from all partnerships listed on Schedule NJ-BUS-1 is a loss, you should make no entry on your New Jersey Income Tax return in the category "Distributive Share of Partnership Income."

**If more than one partnership has a loss**, and net losses exceed income, see [question 4](#).

### Basis

Making annual adjustments to your New Jersey basis in a partnership will allow you to accurately determine your gain (loss) when you sell or otherwise dispose of your interest in the entity. For more information on determining the basis in your partnership, see [question 5](#).

### Disposition of a Partnership Interest

If you disposed of your interest in a partnership during the tax year, see [question 6](#) for details on how to determine and report the gain (loss) from the disposition.



## Partnership Income

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## Question 1. What do I do with the information on Schedule NJK-1, Form NJ-1065 that my partnership(s) gave me?

### Residents

New Jersey resident individuals, estates, and trusts are subject to the State's Income Tax on their distributive share of partnership income (loss) regardless of the source from which the income was derived. If you are a resident with income from a partnership, you must:

1. Deduct any allowable, unreimbursed business expenses from the amount that appears in Column A, Schedule NJK-1, [Form NJ-1065](#) as "Distributive Share of Partnership Income (loss);" (See [Adjustments to Income](#).)
2. Enter the adjusted amount on Schedule NJ-BUS-1 of Form [NJ-1040](#) or Form [NJ-1041](#) in the "Distributive Share of Partnership Income" section;
3. Enter the amount from Schedule NJ-BUS-1 on Form NJ-1040 or Form NJ-1041 on the line for "Distributive Share of Partnership Income." If this amount is zero or less, make no entry on Form NJ-1040, or enter zero on Form NJ-1041. (See [Losses](#).)

[Example 1](#) illustrates the procedure for determining the amount to report as distributive share of partnership income.

### Multiple Partnerships

If you have income (loss) from more than one partnership, you must:

1. Deduct any allowable, unreimbursed business expenses from the amount that appears in Column A, Schedule NJK-1, [Form NJ-1065](#) as "Distributive Share of Partnership Income (loss)" for each partnership; (See [Adjustments to Income](#).)
2. Enter the adjusted amounts from *all* partnerships on Schedule NJ-BUS-1 of [Form NJ-1040](#) or [Form NJ-1041](#) in the "Distributive Share of Partnership Income" section;
3. Total the adjusted amounts on Schedule NJ-BUS-1, and enter the result on Form NJ-1040 or Form NJ-1041. If the total is zero or less, make no entry on Form NJ-1040, or enter zero on Form NJ-1041. (See [Losses](#).)

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## Partnership Income Understanding Income Tax

The amount reported in Column A, Schedule NJK-1, Form NJ-1065 as **Net Gain (loss) from Disposition of Assets as a Result of a Complete Liquidation** represents the total amount of taxable gain or loss from that entity. Enter this amount on Form NJ-1040, or Form NJ-1041 on the line for “Net gains or income from disposition of property.”

### Nonresidents

Individual, estate, or trust partners that reside outside of New Jersey are subject to this State’s Income Tax on the distributive share of partnership income, but only for New Jersey-sourced income.

If you are a nonresident, you must include your distributive share of partnership income from all sources on your New Jersey Income Tax return as follows:

1. Deduct any allowable, unreimbursed business expenses from the amount that appears as “Distributive Share of Partnership Income (loss)” in Column A, Schedule NJK-1, Form NJ-1065; (See [Adjustments to Income](#).)
2. Enter the adjusted amount on Schedule NJ-BUS-1 of [Form NJ-1040NR](#) (nonresident individual partners) or [Form NJ-1041](#) (nonresident estate or trust partners) in the “Distributive Share of Partnership Income” section;
3. Enter the amount from Schedule NJ-BUS-1 in Column A, Form NJ-1040NR or on Form NJ-1041 on the line for “Distributive Share of Partnership Income.” If this amount is zero or less, enter zero; (See [Losses](#).)
4. Deduct the *prorated* amount of any allowable, unreimbursed business expenses from the amount that appears in Column B, Schedule NJK-1. This adjusted amount is the portion of total distributive share of partnership income allocated to New Jersey and actually subject to tax;
5. Enter the adjusted New Jersey amount in Column B, Form NJ-1040NR (nonresident individual partners), or on Schedule E, Form NJ-1041 (nonresident estate or trust partners). If this amount is zero or less, enter zero.

[Example 1](#) illustrates the procedure for determining the amount to report as distributive share of partnership income.

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## Partnership Income Understanding Income Tax

You must enter the share of New Jersey tax reported by the partnership in Part III, Schedule NJK-1, Form NJ-1065 on your New Jersey Income Tax return to claim credit for tax paid on your behalf by the partnership. Individual partners must enter the amount on Form NJ-1040NR, and estate or trust partners must enter the amount on Form NJ-1041.

### Multiple Partnerships

If you have income (loss) from more than one partnership, you must:

1. Deduct any allowable, unreimbursed business expenses from the amount that appears as “Distributive Share of Partnership Income (loss)” in Column A, Schedule NJK-1, Form NJ-1065 for each partnership; (See [Adjustments to Income](#).)
2. Enter the adjusted amounts from *all* partnerships on Schedule NJ-BUS-1 of [Form NJ-1040NR](#) (individual partners) or [Form NJ-1041](#) (estate or trust partners) in the “Distributive Share of Partnership Income” section;
3. Total the adjusted amounts on Schedule NJ-BUS-1, and enter the result in Column A, Form NJ-1040NR or on Form NJ-1041. If the total is zero or less, enter zero; (See [Losses](#).)
4. Deduct the *prorated* amount of any allowable, unreimbursed business expenses for each partnership from the distributive share of partnership income (loss) from *New Jersey sources* (Column B of each Schedule NJK-1);
5. Total these adjusted amounts, and enter the result in Column B, Form NJ-1040NR or on Schedule E, Form NJ-1041. If the total is zero or less, enter zero.

You must include the amount of income reported by the partnership as **Net Gain (loss) from Disposition of Assets as a Result of a Complete Liquidation** in Column A, Schedule NJK-1, Form NJ-1065 on your New Jersey Income Tax return to determine your income from all sources. This amount must be entered as, “Net gains or income from disposition of property,” in Column A, Form NJ-1040NR for nonresident individual partners or Form NJ-1041 for nonresident estate or trust partners. Enter the amount from Column B, Schedule NJK-1 in Column B, Form NJ-1040NR for nonresident individual partners or on Schedule E, Form NJ-1041 for nonresident estate or trust partners. You are taxed on this amount from New Jersey sources.

If you have income (loss) from more than one partnership, you must add the separate amounts of share of New Jersey tax reported by the partnerships (Part III of each Schedule NJK-1). Individual partners must enter the total on Form NJ-1040NR, and estate and trust partners must enter the total on Form NJ-1041 to claim credit for tax paid on their behalf by the partnerships.

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### Example 1

#### Schedule NJK-1

(Form NJ-1065)

<b>PART II Income Information</b>				
Income Classifications	A. Total Distribution	NJ-1040 Filers Enter Amounts on Line Shown Below	B. New Jersey Source Amounts	NJ-1040NR Filers
1. Partnership Income (loss)	18,000		9,000	
2. New Guaranteed Payments	-0-		-0-	
3. Partner's 401(k) Contribution	2,577		1,288	
4. Distributive Share of Partnership Income (loss) (Line 1 plus Line 2 minus Line 3)	15,423	Line 21	7,712	Line 23
5. Pension		Line 20a		
6. Net Gain (loss) from Disposition of Assets as a Result of a Complete Liquidation		Line 19		Line 19
<b>PART III Partner's Information</b>				
1. Nonresident Partner's Share of NJ Tax		1.	573	Line 10b, Page 1 CBT-100 Line 8b, Page 1 CBT-100S Line 10, Page 1, CBT-100U Line 8, NJ-CBT-1065 Line 51, NJ-1040NR Line 23, NJ-1080C Line 34a, NJ-1041
2. Partner's HEZ Deduction		2.		
3. Partner's Sheltered Workshop Tax Credit		3.		

A partnership supplied the following Schedule NJK-1 to one of its partners:

During the tax year, this partner had deductible business expenses as shown below:

Auto	\$300
Telephone	75
Investment interest expense to acquire the partnership interest	48



## Partnership Income Understanding Income Tax

### Example 1 *(continued)*

#### Resident

A resident partner reports distributive share of partnership income on the New Jersey Resident Income Tax Return, Form NJ-1040, as follows:

Distributive share of partnership income per Schedule NJK-1, Column A:	\$15,423
Less unreimbursed business expenses:	
Auto	( 300)
Telephone	( 75)
Investment interest expense to acquire the partnership interest	( 48)
Adjusted distributive share of partnership income (include on Form NJ-1040)	<u>\$15,000</u>

The partner must enclose a schedule, similar to the one above, with the return to explain any adjustments made to the amount reported on Schedule NJK-1 by the partnership.

#### Nonresident

Nonresident partners must use an allocation factor to determine the deductible portion of each expense from New Jersey source income. Calculate the allocation factor by dividing **Distributive Share of Partnership Income (loss)** in Column B (New Jersey Source Amounts) by **Distributive Share of Partnership Income (loss)** in Column A (Total Distribution). In this example, the allocation factor is 50% ( $7,712 \div 15,423$ ). The partner reports distributive share of partnership income on the New Jersey Nonresident Income Tax Return, Form NJ-1040NR, as follows:

Distributive share of partnership income per Schedule NJK-1, Column A:	\$15,423
Less unreimbursed business expenses:	
Auto	( 300)
Telephone	( 75)
Investment interest expense to acquire the partnership interest	( 48)
Adjusted distributive share of partnership income (include on Form NJ-1040)	<u>\$15,000</u>

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## Partnership Income Understanding Income Tax

The partner must enclose a schedule, similar to the one above, with the return to explain any adjustments made to the amounts reported on Schedule NJK-1 by the partnership.

The nonresident partner also will claim credit for \$573 on Form NJ-1040NR for tax that has been paid on her behalf by the partnership.

### **Question 2. What do I report if my partnership did not give me a Schedule NJK-1, Form NJ-1065?**

There may be instances when a partnership that has income or loss from New Jersey sources, or in which one or more of the partners is a New Jersey resident, does not comply with its responsibility to file Form NJ-1065 and provide each partner with Schedule NJK-1.

If you did not receive Schedule NJK-1 from a particular partnership, and you are either a New Jersey resident or a nonresident who knows or believes that the partnership had income (loss) from New Jersey sources, contact the partnership immediately to obtain Schedule NJK-1. If you are unable to obtain Schedule NJK-1, you will have to use the information from the federal Schedule K-1 that the partnership provided to complete Reconciliation Worksheet A.

Reconciliation Worksheet A will enable you to determine the proper amount to report as your distributive share of partnership income for New Jersey tax purposes. To complete the worksheet, you will have to obtain certain information from the partnership in addition to the amounts provided on federal Schedule K-1 (e.g., the amount of taxes based on income and the amount of interest income attributable to obligations that are exempt for New Jersey Income Tax purposes).

[Exempt Obligations](#) contains more information about obligations that are exempt from New Jersey Income Tax.

Both resident partners and nonresident partners who have income from New Jersey sources must complete a Reconciliation Worksheet A for each federal Schedule K-1 received from a partnership that did not also provide a corresponding Schedule NJK-1.

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## Partnership Income Understanding Income Tax

Adjust the amount of partnership income (loss) from line 17 of the completed Reconciliation Worksheet A to reflect any qualified, unreimbursed business expenses before entering an amount on Schedule NJ-BUS-1. Combine the adjusted amount with the adjusted income (loss) from any other partnerships and then enter the adjusted total on the "Distributive Share of Partnership Income" line of [Form NJ-1040](#), Column A of [Form NJ-1040NR](#), or [Form NJ-1041](#). Nonresidents with other New Jersey-sourced income must report their partnership income from all sources by calculating as if they were a New Jersey resident. (See instructions for line 17 of [Reconciliation Worksheet A](#).)



# Partnership Income

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### Worksheet A

#### RECONCILIATION OF SCHEDULE K-1, FEDERAL FORM 1065

**PARTNERSHIP NAME** \_\_\_\_\_ **EMPLOYER ID NUMBER** \_\_\_\_\_

**TAX YEAR** \_\_\_\_\_

1. Ordinary income (loss) from trade or business activities .....1. \_\_\_\_\_
2. Net income (loss) from rental real estate activities.....2. \_\_\_\_\_
3. Net income (loss) from other rental activities.....3. \_\_\_\_\_
4. Guaranteed payments to partner .....4. \_\_\_\_\_
5. Interest income .....5. \_\_\_\_\_
6. Dividend income.....6. \_\_\_\_\_
7. Royalty income.....7. \_\_\_\_\_
8. Net short-term capital gain (loss).....8. \_\_\_\_\_
9. Net long-term capital gain (loss) .....9. \_\_\_\_\_
10. Net IRC section 1231 gain (loss)..... 10. \_\_\_\_\_
11. Other income (loss) ..... 11. \_\_\_\_\_
12. Tax-exempt interest income ..... 12. \_\_\_\_\_
13. Subtotal (Add lines 1 through 12).....13. \_\_\_\_\_
- 14a. Taxes based on income..... 14a. \_\_\_\_\_
- 14b. Other additions – specify: \_\_\_\_\_ 14b. \_\_\_\_\_
- 14c. Total additions (Add lines 14a and 14b).....14c. \_\_\_\_\_
15. Subtotal (Add lines 13 and 14c).....15. \_\_\_\_\_
- 16a. IRC section 179 expense..... 16a. \_\_\_\_\_
- 16b. Excess meal & entertainment expense .....16b. \_\_\_\_\_
- 16c. Interest income from federal obligations ..... 16c. \_\_\_\_\_
- 16d. Interest income from NJ obligations .....16d. \_\_\_\_\_
- 16e. Other subtractions – specify: \_\_\_\_\_ 16e. \_\_\_\_\_
- 16f. Total subtractions (Add lines 16a through 16e)..... 16f. \_\_\_\_\_
17. Partnership income (loss) (line 15 minus line 16f) .....17. \_\_\_\_\_



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## Instructions for Partner's Reconciliation Worksheet A

### Partnership Information

Enter the name and federal identification number of the partnership that issued the Schedule K-1, federal Form 1065 that is being reconciled. Enter your tax year.

### Income Information

#### **Line 1 – Ordinary Income (Loss) From Trade or Business Activities**

Enter on line 1 the amount of ordinary income (loss) reported on line 1, Schedule K-1, federal Form 1065.

#### **Line 2 – Net Income (Loss) From Rental Real Estate Activities**

Enter on line 2 the amount of net income (loss) from rental real estate activities reported on line 2, Schedule K-1, federal Form 1065.

#### **Line 3 – Net Income (Loss) From Other Rental Activities**

Enter on line 3 the amount of net income (loss) from other rental activities reported on line 3, Schedule K-1, federal Form 1065.

#### **Line 4 – Guaranteed Payments to Partner**

Enter on line 4 the amount of guaranteed payments reported on line 4, Schedule K-1, federal Form 1065.

#### **Line 5 – Interest Income**

Enter on line 5 the amount of interest income reported on line 5, Schedule K-1, federal Form 1065.

#### **Line 6 – Dividend Income**

Enter on line 6 the amount of dividend income reported on line 6a, Schedule K-1, federal Form 1065.

#### **Line 7 – Royalty Income**

Enter on line 7 the amount of royalty income reported on line 7, Schedule K-1, federal Form 1065.

#### **Line 8 – Net Short-Term Capital Gain (Loss)**

Enter on line 8 the amount of net short-term capital gain (loss) reported on line 8, Schedule K-1, federal Form 1065.



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### **Line 9 – Net Long-Term Capital Gain (Loss)**

Enter on line 9 the amount of long-term capital gain (loss) reported on lines 9a, 9b, and 9c, Schedule K-1, federal Form 1065.

### **Line 10 – Net IRC Section 1231 Gain (Loss)**

Enter on line 10 the net IRC Section 1231 gain or loss reported on line 10, Schedule K-1, federal Form 1065.

### **Line 11 – Other Income (Loss)**

Enter on line 11 any other income (loss) that is not included on lines 1 through 10 above. This will include the amount reported on line 11 of Schedule K-1, federal Form 1065. If you report any amount on this line, enclose a schedule with your return that identifies the income or loss.

### **Line 12 – Tax-Exempt Interest Income**

Enter on line 12 the amount of tax-exempt interest income reported on line 18, Schedule K-1, federal Form 1065.

### **Line 13 – Subtotal**

Add the amounts on line 1 through 12, and enter the result on line 13.

### **Line 14a – Taxes Based on Income**

Enter on line 14a your share of the amount of taxes, based on income that was taken as a deduction by the partnership on federal Form 1065 to determine the amount of ordinary income (loss) that you reported on line 1, above. Obtain this information from the partnership if you do not already have it.

### **Line 14b – Other Additions – Specify**

Enter on line 14b any other items that were deducted from, or not included on, lines 1 through 12 above that are not excludable under the New Jersey Gross Income Tax Act. Include the net addition adjustment from Worksheet [GIT-DEP](#). Specify each item reported. If the amount reported on line 13 above included any loss incurred in connection with the disposition of exempt New Jersey or federal obligations, you must add back the amount of such loss on this line. Obtain this information from the partnership if you do not already have it.

For tax years and for assets placed in service beginning on or after January 1, 2004, a New Jersey depreciation adjustment is required if federal income is included: the deduction of the 50% federal special depreciation allowance or IRC Section 179 expense, IRC Section 179 recapture income, or a gain or loss on the disposition of such asset. Use Gross Income Tax Depreciation Adjustment Worksheet [GIT-DEP](#) to calculate the adjustment. Include any net addition adjustment from Worksheet [GIT-DEP](#), if applicable.



## Partnership Income Understanding Income Tax

For New Jersey Income Tax purposes, the partnership can deduct IRC Section 179 expenses up to a maximum of \$25,000 (or \$60,000 if New York Liberty Zone property is included). To determine the total amount deducted federally by the partnership, divide the IRC Section 179 expense listed on your federal K-1 by your ownership percentage. If the total federal deduction exceeded \$25,000 (or \$60,000 if New York Liberty Zone property is included), you must use Worksheet [GIT-DEP](#) to calculate your New Jersey depreciation adjustment. To complete the form, you will need to obtain the necessary information from the partnership, including the federal special depreciation allowance.

### **Line 14c – Total Additions**

Add the amounts on lines 14a and 14b and enter the result on line 14c.

### **Line 15 – Subtotal**

Add the amounts on line 13 and 14c and enter the result on line 15.

### **Line 16a – IRC Section 179 Expense**

Enter on line 16a any IRC Section 179 expense deduction reported on line 12, Schedule K-1, federal Form 1065.

### **Line 16b – Excess Meal and Entertainment Expense**

Enter on line 16b the meal and entertainment expenses that were not deductible for federal income tax purposes. Obtain this information from the partnership if you do not already have it.

### **Line 16c – Interest Income From Federal Obligations**

Enter on line 16c any interest from federal obligations that is excludable from New Jersey income and was included in the amounts reported on lines 5 or 6 above. Obtain this information from the partnership if you do not already have it.

Amounts excludable from income include interest and dividends both on obligations of the State of New Jersey or any of its political subdivisions (cities and counties), and from tax-exempt obligations of the United States government, its territories, or agencies. Distributions from New Jersey qualified investment funds also are exempt, as are distributions from other investment funds, as long as the distribution came from obligations described in New Jersey law at [N.J.S.A. 54A:6-14](#), et seq. Add lines 16c and 16d, and include the total on line 16b, Form NJ-1040.

### **Line 16d – Interest Income From New Jersey Obligations**

Enter on line 16d the amount of interest income from New Jersey obligations that is excludable from New Jersey income, and was included in the amount reported on lines 6 or 12 above. Obtain this information from the partnership if you do not already have it.

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## Partnership Income Understanding Income Tax

### Line 16e – Other Subtractions – Specify

Enter on line 16e any other items that are excludable or deductible from the income (loss) included in the subtotal reported on line 13 of this worksheet. Include on this line any gains from the sale of exempt federal or New Jersey obligations, the net subtraction adjustment from Worksheet [GIT-DEP](#), and the contribution you made through the partnership to an IRC Section 401(k) plan. Contributions in excess of federal limits and taxable for federal income tax purposes cannot be included on this line. Obtain this information from the partnership if you do not already have it.

If assets were placed in service on or after January 1, 2004, and the federal 50% Special Depreciation Allowance or Section 179 expense was deducted, then a New Jersey depreciation adjustment is required for subsequent tax years. Use Gross Income Tax Depreciation Adjustment Worksheet [GIT-DEP](#) to calculate the adjustment. Include any net subtraction adjustment from Worksheet [GIT-DEP](#), if applicable.

For New Jersey Income Tax purposes, the partnership can deduct IRC Section 179 expenses up to a maximum of \$25,000 (or \$60,000 if New York Liberty Zone property is included). To determine the total amount deducted federally by the partnership, divide the IRC Section 179 expense listed on your federal K-1 by your ownership percentage. If the total federal deduction exceeded \$25,000 (or \$60,000 if New York Liberty Zone property is included), you must use Worksheet [GIT-DEP](#) to calculate your New Jersey depreciation adjustment. To complete the form, you will need to obtain the necessary information from the partnership, including the federal special depreciation allowance.

Complete [Form 501-GIT](#) to calculate the New Jersey Domestic Production Activities Deduction to report when determining the distributive share of partnership income.

### Line 16f – Total Subtractions

Add the amounts on lines 16a through 16e and enter the result on line 16f.

### Line 17 – Partnership Income (Loss)

Subtract line 16f from line 15 and enter the result on line 17. This amount represents your distributive share of partnership income from all sources for New Jersey Income Tax purposes. You can deduct any allowable, unreimbursed business expenses before entering the adjusted amount on Schedule NJ-BUS-1 of Form NJ-1040, Form NJ-1040NR, or Form NJ-1041. (See [Adjustments to Income](#).) Combine the adjusted amount with the income (loss) from any other partnerships listed on Schedule NJ-BUS-1 and report on Form NJ-1040, Column A of Form NJ-1040NJ, or on Form NJ-1041.

The image shows three birds perched on a wooden branch. On the left is a bright yellow bird with black wings. In the center is a small brown and white bird. On the right is a larger white bird with brown wings. A semi-transparent white box with black text is overlaid on the image, containing the title. Below the image, there is a green fern frond.

## Partnership Income Understanding Income Tax

Nonresidents must include New Jersey derived partnership income in the adjusted distributive share of partnership income allocated to New Jersey in Column B, Form NJ-1040NR or on Schedule E, Form-1041. A nonresident's partnerships income not derived from New Jersey sources should only include this amount on Schedule NJ-BUS-1 and in Column A of Form NJ-1040NR or on Form NJ-1041.

### Question 3. How do I determine my reportable income from a partnership if I was a part-year resident/part-year nonresident?

#### Residents

As a part-year resident, you are required to file a part-year resident return ([Form NJ-1040](#)) covering the portion of your tax year that you resided in New Jersey. The return must include the prorated amount of your distributive share of partnership income that was realized by the partnership during the portion of *its* fiscal year in which you were a New Jersey resident.

If the partnership was completely liquidated (see [question 7](#)), you also must report the prorated amount of your net gain (loss) from a disposition of assets as a result of a complete liquidation that was realized by the partnership during the portion of its fiscal year that you were a New Jersey resident.

To determine the prorated amount of distributive share of partnership income to include on Schedule NJ-BUS-1 of Form NJ-1040, first calculate your residency percentage by adding up the number of days in the partnership's fiscal year that you were a New Jersey resident. Determine what percentage of 365 that number represents (use 366 for leap years). Then deduct any allowable, unreimbursed business expenses from the amount of distributive share of partnership income in Column A, Schedule NJK-1. (See [Adjustments to Income](#).) Multiply that result by the residency percentage.

#### Example 2

A partnership's fiscal year begins on July 1, 2020, and ends on June 30, 2021. The taxpayer moved out of New Jersey on April 30, 2021 (spending 304 days as a resident during the partnership's fiscal year).

Therefore, this taxpayer's residency percentage would be:

$$304 \div 365 = 83.3\%$$

If you have a **different tax year than your partnership**, you must report your distributive share of partnership income for the partnership's tax year that *ended* within your tax year.

The image shows three birds perched on a wooden branch. On the left is a bright yellow bird with black wings. In the center is a smaller, brown and white bird. On the right is a larger, grey and white bird. The background is a soft, out-of-focus green. A semi-transparent white box is overlaid on the image, containing the title text.

## Partnership Income Understanding Income Tax

If you did not receive a Schedule NJK-1 from your partnership, deduct any allowable, unreimbursed business expenses from the amount on line 17 of your completed Reconciliation Worksheet A. Then multiply the result by the residency percentage, as determined above, to calculate the portion of your distributive share of partnership income to include on Schedule NJ-BUS-1 of Form NJ-1040. For more information regarding Reconciliation Worksheet A, see [question 2](#).

If the partnership was completely liquidated, the Schedule NJK-1, Form NJ-1065 you receive from your partnership will separately state your net gain (loss) from a disposition of assets as a result of a complete liquidation. To determine the prorated amount to include on Form NJ-1040, multiply the amount of net gain (loss) from the disposition of assets as a result of a complete liquidation reported in Column A, Schedule NJK-1 by the residency percentage. The result is the gain (loss) to be included on your Form NJ-1040 in the category, "Net gains or income from disposition of property."

If you did not receive a Schedule NJK-1 from your partnership, multiply the amount on line 18 of your completed Reconciliation Worksheet A – Liquidated by the residency percentage, as determined above, to calculate the portion of your net gain (loss) from a disposition of assets resulting from a complete liquidation, and include it as "Net gains or income from disposition of property" on Form NJ-1040.

For more information regarding Reconciliation Worksheet A – Liquidated, see [question 3](#).

### Nonresidents

As a part-year, nonresident partner, you are required to file a part-year [Form NJ-1040NR](#) covering the portion of your tax year that you were not a New Jersey resident, but only if you had income from New Jersey sources during that period. Your part-year Form NJ-1040NR must include in Column A the prorated amount of your distributive share of partnership income from all sources and, in Column B, the prorated amount of your distributive share of partnership income that was derived from New Jersey sources.

If the partnership was completely liquidated (see [question 7](#)), you also must report the prorated amount of your New Jersey-sourced net gain (loss) from the sale of assets realized by the partnership during the portion of its fiscal year that you were a nonresident of New Jersey.

The image shows three birds perched on a wooden branch. On the left is a bright yellow bird with black wings. In the center is a small brown and white bird. On the right is a larger white bird with brown wings. The background is a soft, out-of-focus green. A semi-transparent white box is overlaid on the image, containing the title text.

## Partnership Income Understanding Income Tax

Calculate your nonresidency percentage by adding up the number of days in the partnership's fiscal year that you were not a New Jersey resident. Determine what percentage of 365 that number represents (use 366 for leap years.) To determine the prorated amount of distributive share of partnership income to include on Schedule NJ-BUS-1 for Column A of Form NJ-1040NR, deduct allowable, unreimbursed business expenses from the amount of your distributive share of partnership income from everywhere reported in Column A, Schedule NJK-1. (See [Adjustments to Income](#).) Then multiply that result by the nonresidency percentage.

### Example 3

From the facts given in example 2, the taxpayer's nonresidency percentage is:

$$61 \div 365 = 16.7\%$$

To determine the prorated amount to include in Column B, Form NJ-1040NR, deduct any allowable, unreimbursed business expenses from the amount of your distributive share of partnership income from New Jersey sources reported in Column B, Schedule NJK-1, Form NJ-1065. Multiply the result by the nonresidency percentage, as calculated above.

If the partnership was completely liquidated, determine the prorated amount of your net gain (loss) from a disposition of assets by multiplying your nonresidency percentage by the net gain (loss) from the asset sale as a result of a complete liquidation listed in Column A of your Schedule NJK-1. The result is the gain (loss) to be included in Column A, Form NJ-1040NR in the category, "Net gains or income from disposition of property."

To determine the prorated amount of your net gain (loss) from the sale of assets as a result of a complete liquidation from New Jersey sources, multiply the gain (loss) from a disposition of assets as a result of a complete liquidation from New Jersey sources listed in Column B of your Schedule NJK-1 by your nonresidency percentage. The result is the gain (loss) to be included in Column B, Form NJ-1040NR in the category, "Net gains or income from disposition of property."

If you did not receive a Schedule NJK-1 from your partnership, and you know or believe that the partnership had income from New Jersey sources, you should contact the partnership immediately.



## Partnership Income Understanding Income Tax

You must perform a calculation if your partnership had no income from New Jersey sources, but you had other types of income from New Jersey sources during the period that you were a nonresident. Multiply either the amount on line 17, Reconciliation Worksheet A or the amounts on lines 17 and 18, Reconciliation Worksheet A – Liquidated, by the nonresidency percentage after first deducting allowable, unreimbursed business expenses. You must include the result(s) on Schedule NJ-BUS-1 for Column A of Form NJ-1040NR. For more information regarding Reconciliation Worksheet A, see [question 2](#), or for more information regarding Reconciliation Worksheet A – Liquidated, see [question 7](#).

### Question 4. How do I allocate losses reported by more than one of my partnerships if total losses exceed partnership income?

When you have income from one partnership and losses from two or more other partnerships that, in total, exceed the positive partnership income, you must allocate the losses among the partnerships with losses. To determine the usable portion of each partnership's loss, you must divide each partnership's loss by total partnership losses and then multiply this percentage by total partnership income.

$$\frac{\text{Partnership A's Loss}}{\text{Total Partnership Losses}} \times \text{Total Partnership Income} = \text{Usable portion of partnership A's losses}$$

#### Example 4

Mary Wells has three partnerships whose adjusted distributive shares of partnership income/loss for 2020 are as follows:

Partnership A	\$ 15,000
Partnership B	(\$ 10,000)
Partnership C	(\$ 20,000)

The usable portion of each partnership's loss is determined as follows:

Partnership B	$\frac{(\$ 10,000)}{(\$ 30,000)} \times \$15,000 = (\$ 5,000)$
Partnership C	$\frac{(\$ 20,000)}{(\$ 30,000)} \times \$15,000 = (\$10,000)$

You need to determine the usable portions of each loss for your New Jersey partnership basis. (See [question 5](#).) We provided a worksheet to aid you in calculating the usable portion of each partnership's loss ([Worksheet B](#)).

# Partnership Income Understanding Income Tax

## Worksheet B

### ALLOCATION OF NEW JERSEY LOSSES

NAME \_\_\_\_\_ SS# \_\_\_\_\_  
 RETURN YEAR \_\_\_\_\_

**PARTNERSHIPS WITH LOSSES:**

	Partnership	FID	Adjusted New Jersey Partnership Loss	Usable Portion of New Jersey Partnership Loss
1			A1.	C1.
2			A2.	C2.
3			A3.	C3.
4			A4.	C4.
5			A5.	C5.
<b>Total</b>			A.	C.

**PARTNERSHIPS WITH INCOME:**

	Partnership	FID	Adjusted New Jersey Partnership Income
1			B1.
2			B2.
3			B3.
4			B4.
5			B5.
<b>Total</b>			B.

(A#) \_\_\_\_\_ × \_\_\_\_\_ = \_\_\_\_\_  
 (A) \_\_\_\_\_ (B) \_\_\_\_\_ (C#)

#### INSTRUCTIONS

- Report the name, FID number, and either adjusted income or loss of each partnership on the lines above. Add the adjusted losses (A#) and income (B#) and report the totals of each in Blocks A and B.
- Divide each partnership's adjusted New Jersey partnership loss (A#) by your total adjusted New Jersey partnership loss (A) and then multiply that percentage by your total adjusted New Jersey partnership income (B). The result is the partnership's usable loss (C#) that is to be entered in the partnership's corresponding block entitled "Usable Portion of New Jersey Partnership Loss."
- Add the usable losses and report the total in Block C. The total in Block C should equal the amount reported in Block B.



## Partnership Income Understanding Income Tax

### Question 5. How do I determine the basis in my partnership(s) for New Jersey Income Tax purposes?

Calculate the partnership basis each year. Annually updating your New Jersey basis will provide you with the documentation needed to determine your gain or loss from the disposition of property when you sell your investment, or the partnership is dissolved.

To calculate your basis, you will need to know the following information:

- Your initial contribution to the partnership;
- Additional contributions by year;
- Withdrawals by year;
- Income reported over your period of ownership;
- Losses *used* over your period of ownership. We have included [Worksheet C](#) to assist you in tracking your basis in your partnership interests from year to year.

#### Example 5

Maria Martinez owns an interest in three partnerships. The following facts are needed to determine the basis in each partnership at the end of 2020:

	<b>Contributions/(Withdrawals)</b>		
Partnership	A	B	C
2018	\$10,000	\$10,000	\$10,000
2019	—	—	\$ 5,000
2020	—	(\$ 3,000)	—
	<b>Income/(Loss)</b>		
Partnership	A	B	C
2018	(\$ 2,000)	(\$ 1,500)	(\$ 5,000)
2019	(\$ 5,000)	(\$ 4,000)	(\$ 7,000)
2020	\$15,000	(\$10,000)	(\$20,000)

Income (loss) reflects the deduction of any unreimbursed business expenses that met the criteria given in [Adjustments to Income](#).



## Partnership Income Understanding Income Tax

### Example 5 (continued)

	<b>Basis Calculation</b>		
Partnership	A	B	C
Initial Contribution	\$10,000	\$10,000	\$10,000
Additional Contribution	0	0	5,000
Withdrawals	0	(3,000)	0
Income/Used Loss 2018	0	0	0
Income/Used Loss 2019	0	0	0
Income/Used Loss 2020	15,000	(5,000)*	(10,000)*
	<u>\$ 25,000</u>	<u>\$ 2,000</u>	<u>\$ 5,000</u>
<b>Basis as of 12/31/20</b>	<u>\$ 25,000</u>	<u>\$ 2,000</u>	<u>\$ 5,000</u>

Do not include the losses incurred in Tax Years 2018 and 2019 when determining Maria's basis for New Jersey tax purposes since she did not report income in those years.

\* See [question 4](#) for information on how to allocate losses.

## Question 6. How do I determine the gain (loss) from the sale of my partnership interest?

### Residents

If you were a New Jersey resident at the time you disposed of your partnership interest, you must include in your income the gain or loss from the disposition, including any dissolution of a partnership for which you received no value. N.J.S.A. 54A:5-1c requires that you use the federal adjusted basis to calculate your gain or loss from the disposition of property.

However, a decision rendered by the New Jersey Supreme Court in *Koch v. Director*, 157 N.J. 1 (2000), requires that a separate New Jersey basis be determined. Only the amount of your used loss for New Jersey purposes will result in a reduction of your partnership basis.





## Partnership Income Understanding Income Tax

Enter the partnership's tax year in the first column.

- (A) Enter the ending balance from Column E of the prior tax year;
- (B) Enter the amount of capital you contributed to the partnership during the tax year;
- (C) Enter the amount of your "Adjusted New Jersey Partnership Income," or the amount of your "Usable Portion of New Jersey Partnership Loss." Report these amounts in either Column B or Column C of Worksheet B if you have income from one partnership and losses from two or more other partnerships that exceed your positive income. If you have no partnership with positive income, you have no "Usable Portion of New Jersey Partnership Loss." Additionally, add any tax-exempt income and subtract any nondeductible expenses;
- (D) Enter the amount of your withdrawals from the partnership during the tax year;
- (E) Enter the net amount of Columns A through D.

### Example 6A

**FACTS:**

- Interest in only one partnership
- Purchase price in 2010: \$15,000
- No additional contributions of capital
- No withdrawals over period of ownership
- No income from the partnership ever reported to New Jersey
- Partnership incurred a \$2,000 loss each year; the losses were not used for New Jersey Income Tax purposes
- Schedule NJK-1 received from the partnership for 2020 is marked "Final Return"
- Nothing received in exchange for interest in the partnership upon dissolution
- Nothing received in exchange for interest in the partnership upon dissolution

**BASIS CALCULATION:**

Purchase Price	\$ 15,000
Capital Contributions	0
Withdrawals	(0)
Reported Income	<u>0</u>

**Basis in Partnership** \$ 15,000

**GAIN (LOSS) from DISPOSITION OF PROPERTY:**

Sale Price	\$ 0
Less Ending Basis	<u>(15,000)</u>
Less Disp. of Property	<u>\$(15,000)</u>



## Partnership Income Understanding Income Tax

The cost basis for the partnership interest in this example is \$15,000. Since you received no consideration for your partnership interest, you incurred a \$15,000 loss from the dissolution of the partnership, which can be used to offset any other gains that occur in the same tax year in the income category, "Net gains or income from disposition of property."

### Example 6B

FACTS: Same as example 6A above, except the partnership interest sold for \$50,000.

GAIN (LOSS) from DISPOSITION OF PROPERTY:

Sale Price	\$ 50,000
Less Ending Basis	<u>(15,000)</u>
Gain Disp. of Property	<u>\$ 35,000</u>

In this case, a \$35,000 gain results from the sale of your partnership interest. You can either add this gain to other gains, or use it to eliminate losses from the disposition of property that occur in the same tax year.

### Example 7A

FACTS:

- Interest in only one partnership
- Purchase price in 2010: \$15,000
- Additional contributions of capital: \$5,000
- Withdrawals over period of ownership: \$4,000
- Partnership reported income in 2011 of \$1,500 and \$2,500 in 2012
- Partnership incurred a \$2,000 loss each year (2013-2020); the losses were not used for New Jersey Income Tax purposes
- Schedule NJK-1 received from the partnership for 2020 is marked "Final Return"
- Net gain (loss) from a disposition of assets as a result of a complete liquidation was \$26,000
- Received final distribution of \$30,000 from interest in the partnership upon dissolution



## Partnership Income Understanding Income Tax

### BASIS CALCULATION:

Purchase Price	\$ 15,000
Capital Contributions	5,000
Withdrawals	(4,000)
Reported Partnership Income	4,000
Net Gain from Disposition of Liquidated Assets	<u>26,000</u>

**Basis in Partnership** \$ 46,000

### GAIN (LOSS) from DISPOSITION OF PROPERTY:

Sale Price	\$ 30,000
Less Ending Basis	<u>(46,000)</u>
Less Disp. of Property	<u>\$(16,000)</u>

The cost basis for the partnership interest in this example is \$46,000. Since you received \$30,000 as a final distribution from your partnership interest, you incurred a \$16,000 loss from the dissolution of the partnership. This can be used to offset your \$26,000 gain from the disposition of assets as a result of a complete liquidation, or any other gains that occur in the same tax year in the income category, "Net gains or income from disposition of property."

### Example 7B

FACTS: Same as example 7A above, except partnership interest sold for \$50,000.

### GAIN (LOSS) from DISPOSITION OF PROPERTY:

Sale Price	\$ 50,000
Less Ending Basis	<u>(46,000)</u>
Gain Disp. of Property	<u>\$ 4,000</u>

The \$4,000 gain should be added to your \$26,000 gain from the disposition of assets as a result of a complete liquidation and any other gains (losses) from the sale of property that occur in the same tax year.



## Partnership Income Understanding Income Tax

### Example 8A

FACTS: You have interests in two partnerships (A & B)

#### Partnership A

- Purchase price in 2010: \$15,000
- No additional contributions of capital
- No withdrawals over period of ownership
- No income from Partnership A ever reported to New Jersey
- Partnership A incurred a \$2,000 loss each year
- Schedule NJK-1 received from Partnership A for 2020 is marked "Final Return"
- Nothing received in exchange for interest in the partnership upon disposition

#### Partnership B

- Purchase price in 2015: \$10,000
- No additional contributions of capital
- No withdrawals from this partnership
- Partnership B reported income of \$500 in years 2016-2020
- This is an ongoing partnership

#### BASIS CALCULATION – Partnership A:

Purchase Price	\$ 15,000
Capital Contributions	0
Withdrawals	(0)
Reported Income Partnership A	<u>(2,500)</u>
<b>Basis in Partnership</b>	<b><u>\$ 12,500</u></b>

#### GAIN (LOSS) from DISPOSITION OF PROPERTY:

Sale Price	\$ 0
Less Ending Basis	<u>(12,500)</u>
Loss from Disp. of Property	<u><u>\$(12,500)</u></u>

You have a \$12,500 loss. You can either subtract this loss from any gains or add it to losses from dispositions of property that occur in the same year. In each year, \$500 of the \$2,000 loss from Partnership A was used to offset the \$500 of income from Partnership B. The \$2,500 of used losses reduces your partnership basis.



## Partnership Income Understanding Income Tax

### Example 8B

FACTS: You have interests in two partnerships (A & B)

#### Partnership A

- Purchase price in 2010: \$15,000
- Additional contributions of capital: \$5,000
- Withdrawals over period of ownership: \$1,000
- Losses 2010-2018: \$2,000 each year
- Partnership A reported income of \$1,500 in 2019; \$10,000 in 2020 (attributed to Section 1231 gain)
- Partnership interest sold for \$50,000

#### Partnership B

- Purchase price in 2016: \$10,000
- No additional contributions of capital
- No withdrawals from this partnership
- Partnership B reported income of \$500 in years 2016-2020
- This is an ongoing partnership

BASIS CALCULATION – Partnership A:

Purchase Price	\$ 15,000
Capital Contributions	5,000
Withdrawals	(1,000)
Used Losses	(1,500)
Reported Income Partnership A	<u>11,500</u>
<b>Ending Basis</b>	<b><u>\$ 29,000</u></b>

GAIN (LOSS) from DISPOSITION OF PROPERTY:

Sale Price	\$ 50,000
Less Ending Basis	<u>(29,000)</u>
Gain from Disp. of Property	<b><u>\$21,000</u></b>

You have a \$21,000 gain. You can either add this gain to other gains or use it to offset losses from the disposition of property that occurs in the same tax year.



# Partnership Income

## Understanding Income Tax

### Worksheet A

#### RECONCILIATION OF SCHEDULE K-1, FEDERAL FORM 1065

**PARTNERSHIP NAME** \_\_\_\_\_ **EMPLOYER ID NUMBER** \_\_\_\_\_

**TAX YEAR** \_\_\_\_\_

1. Ordinary income (loss) from trade or business activities .....1. \_\_\_\_\_
2. Net income (loss) from rental real estate activities.....2. \_\_\_\_\_
3. Net income (loss) from other rental activities.....3. \_\_\_\_\_
4. Guaranteed payments to partner .....4. \_\_\_\_\_
5. Interest income .....5. \_\_\_\_\_
6. Dividend income.....6. \_\_\_\_\_
7. Royalty income.....7. \_\_\_\_\_
8. Net short-term capital gain (loss).....8. \_\_\_\_\_
9. Net long-term capital gain (loss) .....9. \_\_\_\_\_
10. Net IRC section 1231 gain (loss)..... 10. \_\_\_\_\_
11. Other income (loss) ..... 11. \_\_\_\_\_
12. Tax-exempt interest income ..... 12. \_\_\_\_\_
13. Subtotal (Add lines 1 through 12) .....13. \_\_\_\_\_
- 14a. Taxes based on income..... 14a. \_\_\_\_\_
- 14b. Other additions – specify: \_\_\_\_\_ 14b. \_\_\_\_\_
- 14c. Total additions (Add lines 14a and 14b) .....14c. \_\_\_\_\_
15. Subtotal (Add lines 13 and 14c) .....15. \_\_\_\_\_
- 16a. IRC section 179 expense..... 16a. \_\_\_\_\_
- 16b. Excess meal & entertainment expense .....16b. \_\_\_\_\_
- 16c. Interest income from federal obligations ..... 16c. \_\_\_\_\_
- 16d. Interest income from NJ obligations .....16d. \_\_\_\_\_
- 16e. Other subtractions – specify: \_\_\_\_\_ 16e. \_\_\_\_\_
- 16f. Total subtractions (Add lines 16a through 16e)..... 16f. \_\_\_\_\_
17. Partnership income (loss) (line 15 minus line 16f) .....17. \_\_\_\_\_

# Partnership Income

## Understanding Income Tax

### Worksheet A – Liquidated RECONCILIATION OF SCHEDULE K-1, FEDERAL FORM 1065

**PARTNERSHIP NAME** \_\_\_\_\_ **EMPLOYER ID NUMBER** \_\_\_\_\_  
**TAX YEAR** \_\_\_\_\_

Date the partnership and all its partners discontinued all business activities this year..... / /

Date all the partnership assets were distributed to the partners this year..... / /

Were all the partners required to recognize a gain or loss on the disposition of their partnership assets for Federal income tax purposes this year?  Yes  No

This schedule cannot be completed unless all business activities were discontinued this year, all assets were distributed to the partners this year, and all the partners were required to recognize a gain or loss on the disposition of their partnership assets for Federal income tax purposes this year.

	Column A Distributive Share of Partnership Income	Column B Net Gain (Loss) From Disposition of Assets in Complete Liquidation
1. Ordinary income (loss) from trade or business activities.....	1.	
2. Net income (loss) from rental real estate activities.....	2.	
3. Net income (loss) from other rental activities.....	3.	
4. Guaranteed payments to partner.....	4.	
5. Interest income.....	5.	
6. Dividend income.....	6.	
7. Royalty income.....	7.	
8. Net short-term capital gain (loss).....	8.	8.
9. Net long-term capital gain (loss).....	9.	9.
10. Net IRC section 1231 gain (loss).....	10.	10.
11. Other income (loss).....	11.	11.
12. Tax-exempt interest income.....	12.	
13. Subtotal (Add lines 1 through 12).....	13.	13.
14a. Taxes based on income.....	14a.	
14b. Other additions – specify: _____	14b.	14b.
14c. Total additions (Add lines 14a and 14b).....	14c.	14c.
15. Subtotal (Add lines 13 and 14c).....	15.	15.
16a. IRC section 179 expense.....	16a.	
16b. Excess meal and entertainment expense.....	16b.	
16c. Interest income from Federal obligations.....	16c.	
16d. Interest income from NJ obligations.....	16d.	
16e. Other subtractions – Specify: _____	16e.	16e.
16f. Total subtractions (Add lines 16a through 16e).....	16f.	16f.
17. Partnership income (loss) (line 15 minus line 16f).....	17.	
18. Net Gain (loss) from Disposition of Assets (line 15 minus line 16f).....		18.

# Partnership Income

## Understanding Income Tax

### Worksheet B

#### ALLOCATION OF NEW JERSEY LOSSES

NAME \_\_\_\_\_ SS# \_\_\_\_\_  
 RETURN YEAR \_\_\_\_\_

**PARTNERSHIPS WITH LOSSES:**

	Partnership	FID	Adjusted New Jersey Partnership Loss	Usable Portion of New Jersey Partnership Loss
1			A1.	C1.
2			A2.	C2.
3			A3.	C3.
4			A4.	C4.
5			A5.	C5.
<b>Total</b>			A.	C.

**PARTNERSHIPS WITH INCOME:**

	Partnership	FID	Adjusted New Jersey Partnership Income
1			B1.
2			B2.
3			B3.
4			B4.
5			B5.
<b>Total</b>			B.

(A#) \_\_\_\_\_ × \_\_\_\_\_ = \_\_\_\_\_  
 (A) (B) (C#)



## Partnership Income Understanding Income Tax

### Instructions

- Report the name, FID number, and either adjusted losses or income of each partnership on the lines above. Add the adjusted losses (A#) and income (B#), and report the totals of each in Blocks A and B.
- Divide each partnership's adjusted New Jersey partnership loss (A#) by your total adjusted New Jersey partnership loss (A). Multiply that percentage by your total adjusted New Jersey partnership income (B). The result is the partnership's usable loss (C#) that is to be entered in the partnership's corresponding block entitled, "Usable Portion of New Jersey Partnership Loss."
- Add the usable losses and report the total in Block C. The total in Block C should equal the amount reported in Block B.

### Worksheet C

#### NEW JERSEY PARTNERSHIP BASIS

NAME \_\_\_\_\_ SS# \_\_\_\_\_  
 PARTNERSHIP NAME \_\_\_\_\_ FID# \_\_\_\_\_

Year	Beginning New Jersey Basis (A)	+	Capital (B)	+	Adjusted New Jersey Partnership Income (Used Loss) (C)	-	Withdrawals (D)	=	Ending New Jersey Basis (E)

The image shows three birds perched on a wooden branch. On the left is a bright yellow bird with black wings. In the center is a brown and white bird. On the right is a smaller, greyish-brown bird. The background is a soft, out-of-focus green. A semi-transparent white box is overlaid on the image, containing the title text.

## Partnership Income Understanding Income Tax

Enter the partnership's tax year in the first column.

- (A) Enter the ending balance from Column E of the prior tax year;
- (B) Enter the amount of capital you contributed to the partnership during the tax year;
- (C) Enter the amount of your "Adjusted New Jersey Partnership Income," or the amount of your "Usable Portion of New Jersey Partnership Loss." Report these amounts in either Column B or Column C of Worksheet B if you have income from one partnership, and losses from two or more other partnerships that exceed your positive income. If you have no partnership with positive income, you have no "Usable Portion of New Jersey Partnership Loss." Additionally, add any tax-exempt income and subtract any nondeductible expenses;
- (D) Enter the amount of your withdrawals from the partnership during the tax year;
- (E) Enter the net amount of Columns A through D.

### Question 7. What do I report in the year my partnership was completely liquidated?

Under Income Tax regulation [N.J.A.C. 18:35-1.3\(d\)2](#), a complete liquidation of a partnership is deemed to occur in the tax year when:

- All its partners discontinue all partnership activities;
- All its assets have been distributed to the partners; **and**
- The partners are required to recognize a gain or loss on the disposition of their partnership interests for federal income tax purposes.

If the complete liquidation meets the three criteria above, separately report the partnership's gain or loss from the sale or disposition of its assets as, "Net gains or Income from Disposition of Property."

If a partnership was completely liquidated, the partnership will provide you with a Schedule NJK-1, Form NJ-1065 that separately states your distributive share of partnership income (loss) and your net gain (loss) from a disposition of assets as a result of a complete liquidation.

If a partnership was completely liquidated, and you did not receive Schedule NJK-1 from the partnership, you must complete Reconciliation Worksheet A – Liquidated to determine the correct amount of distributive share of partnership income (loss) and net gain (loss) from a disposition of assets. To complete Worksheet A Liquidated, you must obtain the necessary information from the partnership.

**GIT-9P**

December 2020

# Partnership Income Understanding Income Tax

## Worksheet A – Liquidated

### RECONCILIATION OF SCHEDULE K-1, FEDERAL FORM 1065

**PARTNERSHIP NAME** \_\_\_\_\_ **EMPLOYER ID NUMBER** \_\_\_\_\_

**TAX YEAR** \_\_\_\_\_

Date the partnership and all its partners discontinued all business activities this year..... / /

Date all the partnership assets were distributed to the partners this year..... / /

Were all the partners required to recognize a gain or loss on the disposition of their partnership assets for Federal income tax purposes this year?  Yes  No

This schedule cannot be completed unless all business activities were discontinued this year, all assets were distributed to the partners this year, and all the partners were required to recognize a gain or loss on the disposition of their partnership assets for Federal income tax purposes this year.

	Column A Distributive Share of Partnership Income	Column B Net Gain (Loss) From Disposition of Assets in Complete Liquidation	
1. Ordinary income (loss) from trade or business activities.....	1.		
2. Net income (loss) from rental real estate activities.....	2.		
3. Net income (loss) from other rental activities.....	3.		
4. Guaranteed payments to partner.....	4.		
5. Interest Income.....	5.		
6. Dividend income.....	6.		
7. Royalty income.....	7.		
8. Net short-term capital gain (loss).....	8.	8.	
9. Net long-term capital gain (loss).....	9.	9.	
10. Net IRC section 1231 gain (loss).....	10.	10.	
11. Other income (loss).....	11.	11.	
12. Tax-exempt interest income.....	12.		
13. Subtotal (Add lines 1 through 12).....	13.	13.	
14a. Taxes based on income.....	14a.		
14b. Other additions – specify: .....	14b.	14b.	
14c. Total additions (Add lines 14a and 14b).....	14c.	14c.	
15. Subtotal (Add lines 13 and 14c).....	15.	15.	
16a. IRC section 179 expense.....	16a.		
16b. Excess meal and entertainment expense.....	16b.		
16c. Interest income from Federal obligations.....	16c.		

# Partnership Income Understanding Income Tax

## Worksheet A – Liquidated (continued)

	Column A Distributive Share of Partnership Income	Column B Net Gain (Loss) From Disposition of Assets in Complete Liquidation
16d. Interest income from NJ obligations .....	16d.	
16e. Other subtractions – Specify: _____ .....	16e.	16e.
16f. Total subtractions (Add lines 16a through 16e) .....	16f.	16f.
17. Partnership income (loss) (line 15 minus line 16f) .....	17.	
18. Net Gain (loss) from Disposition of Assets .....		18.
(line 15 minus line 16f)		

## Instructions for Partner’s Reconciliation Worksheet A - Liquidated

Obtain the necessary information from the partnership, including the partnership’s gain or loss from a liquidation of the partnership’s assets before properly completing Reconciliation Worksheet A – Liquidated.

### Partnership Information

Enter the following information:

- Name and federal identification number of the partnership that issued the Schedule K-1, federal Form 1065 that is being reconciled;
- Your tax year;
- The date the partnership and all its partners discontinued all business activities;
- The date all the partnership assets were distributed to the partners; and
- Whether all the partners are required to recognize a gain or loss on the disposition of their partnership interests for federal income tax purposes this tax year.

Follow the [Instructions for Partner’s Reconciliation Worksheet A](#).

**Column A** – For each line, enter the partnership income, gains, losses, and New Jersey adjustments from and applicable to the partnership’s operations, activities, and transactions that do not pertain to the sale or disposition of its assets as a result of a complete liquidation.



## Partnership Income Understanding Income Tax

**Column B** – For each line, enter the partnership’s gains or losses and New Jersey adjustments that are applicable to the sale or disposition of its assets as a result of a complete liquidation.

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*The forms and amounts referred to in this Bulletin are those for Tax Year 2020. This document is designed to provide guidance to taxpayers and is accurate as of the date issued.*

*Any reference in this publication to a spouse also refers to a spouse who entered into a valid same-sex marriage in another state or foreign nation and a partner in a [civil union \(CU\)](#) recognized under New Jersey law.*