

TRP 2

Partnership Tax Return Problem Solution

Required forms include Form 1065 (first 4 pages only), 3 Schedule K-1s, Form 4797, and Form 4562.

Depreciation—2012 acquisitions

Expense all purchases:

| | |
|-----------------------|------------------------------|
| Used office furniture | \$ 2,500 |
| Computer | 3,200 |
| Portion of truck | <u>21,250</u> |
| Total | \$26,950 Section 179 expense |

Pre-2012 acquisitions:

$$\begin{array}{lcl} \text{Trucks: } (\$78,000 - \$17,000) = \$61,000 \times .1152 & = & \$7,027 \\ \$17,000 \times .1152 \times .5 & = & 979 \end{array}$$

$$\begin{array}{lcl} \text{Plumbing equipment: } \$23,000 \times .1249 & = & 2,873 \\ \text{Office Furn. } (\$16,000 - \$1,500) = \$14,500 \times .1249 & = & 1,811 \\ \$1,500 \times .1249 \times .5 & = & 94 \\ \text{Computer system: } \$4,000 \times .1152 \times .5 & = & \underline{230} \\ \text{Total pre-2012 acquisitions} & = & \$13,014 \end{array}$$

Gain/Loss on asset disposition:

$$\begin{array}{l} \text{Truck: } (\$17,000 \times (.20 + .32 + .192) + \$979 = \$12,104 + \$979 = \$13,083 \\ \$17,000 - \$13,083 = \$3,917 \text{ adjusted basis of asset at sale} \\ \$6,000 - \$3,917 = \$2,083 \text{ Section 1245 recapture} \end{array}$$

$$\begin{array}{l} \text{Computer: } (\$4,000 \times .712) + \$230 = \$2,848 + \$230 = \$3,078 \\ \$4,000 - \$3,078 = \$922 \text{ adjusted basis at sale} \\ \$250 - \$922 = \$672 \text{ Section 1231 loss} \end{array}$$

$$\begin{array}{l} \text{Furniture (donated): } (\$1,500 \times .5627) + 94 = \$844 + \$94 = \$938 \\ \$1,500 - \$938 = \$562 \text{ adjusted basis when donated; this is limit of donation as sale would} \\ \text{result in ordinary income from recapture. The value of the donation must be reduced by} \\ \text{the ordinary income factor.} \end{array}$$

Form 1065 – Line 20: Schedule of Other Deductions

| | |
|-----------------------------|--------------|
| Materials purchases | \$220,000 |
| Advertising | 3,000 |
| Truck expense | 45,000 |
| Legal and professional fees | 3,000 |
| Office expenses | 6,000 |
| Utilities/Telephone | 8,000 |
| Insurance | 62,000 |
| Meals/Entertainment @ 50% | <u>2,000</u> |
| Total | \$349,000 |

Taxation for Decision Makers Tax Return Problem Solutions

Notes for tax return completion:

Nondeductible items: \$2,000 for 50% of meals & entertainment

\$3,000 Life insurance premium on John and James

Separately stated items:

\$26,950 Section 179 expense deduction

\$562 Contribution deduction

\$672 Section 1231 loss

The depreciation recapture is included in partnership income.

Health and dental insurance expense must be reduced by \$6,000 and \$3,000 each must be added to John's and James's guaranteed payments.

Self-employment tax must be paid on John's and James's guaranteed payments in addition to their share of ordinary income. The ordinary income is reduced by \$2,083 depreciation recapture from the property transaction ($\$253,069 - \$2,083 = \$250,986$). As a limited partner, Tom will pay no self-employment tax on his share of the ordinary income ($\$250,986 \times 50\% = \$125,493$). Total self-employment income is $\$281,493$ ($\$125,493 + \$156,000$ guaranteed payments) or $\$140,746.50$ for each general partner.

Rite-Way Plumbing Company

69-3456789

Form 1065

Line 20

Schedule of Other Deductions:

| | |
|--------------------------------|--------------|
| Advertising | \$ 3,000 |
| Material Purchases | 220,000 |
| Truck Expense | 45,000 |
| Insurance | 62,000 |
| Legal and Professional Fees | 3,000 |
| Office Expenses | 6,000 |
| Utilities/Telephone | 8,000 |
| 50% of Meals and Entertainment | <u>2,000</u> |
| Total | \$349,000 |

There are no changes for 2013.

| | | |
|--|--|---|
| Form 1065 Department of the Treasury Internal Revenue Service | U.S. Return of Partnership Income For calendar year 2012, or tax year beginning _____, 2012, ending _____, 20____. ► Information about Form 1065 and its separate instructions is at www.irs.gov/form1065. | OMB No. 1545-0099 <div style="font-size: 2em; font-weight: bold;">2012</div> |
| A Principal business activity B Principal product or service C Business code number | <div style="display: flex;"> <div style="width: 50px; text-align: center; font-weight: bold;">Print or type.</div> <div> Name of partnership <u>Rite-Way Plumbing Company</u> Number, street, and room or suite no. If a P.O. box, see the instructions. <u>124 Division Lane</u> City or town, state, and ZIP code <u>Sarasota, FL 33645</u> </div> </div> | D Employer identification number <u>69-3456789</u> E Date business started <u>3/1/2009</u> F Total assets (see the instructions) \$ _____ |

G Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change (5) ☐ Amended return
 (6) ☐ Technical termination - also check (1) or (2)

H Check accounting method: (1) ☒ Cash (2) ☐ Accrual (3) ☐ Other (specify) ► _____

I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ► _____

J Check if Schedules C and M-3 are attached ☐

Caution. Include **only** trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.

| | | | | | |
|---|---|--|------------|-----------|-----------|
| Income | 1a | Gross receipts or sales | 1a | 1,240,000 | |
| | b | Returns and allowances | 1b | 0 | |
| | c | Balance. Subtract line 1b from line 1a | 1c | | 1,240,000 |
| | 2 | Cost of goods sold (attach Form 1125-A) | 2 | | |
| | 3 | Gross profit. Subtract line 2 from line 1c | 3 | | |
| | 4 | Ordinary income (loss) from other partnerships, estates, and trusts (attach statement) | 4 | | |
| | 5 | Net farm profit (loss) (attach Schedule F (Form 1040)) | 5 | | |
| | 6 | Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797) | 6 | | 2,083 |
| Deductions <small>(see the instructions for limitations)</small> | 7 | Other income (loss) (attach statement) | 7 | | |
| | 8 | Total income (loss). Combine lines 3 through 7 | 8 | | 1,242,083 |
| | 9 | Salaries and wages (other than to partners) (less employment credits) | 9 | | 378,000 |
| | 10 | Guaranteed payments to partners | 10 | | 156,000 |
| | 11 | Repairs and maintenance | 11 | | 2,000 |
| | 12 | Bad debts | 12 | | |
| | 13 | Rent | 13 | | 28,000 |
| | 14 | Taxes and licenses | 14 | | 38,000 |
| | 15 | Interest | 15 | | |
| | 16a | Depreciation (if required, attach Form 4562) | 16a | 13,014 | |
| | b | Less depreciation reported on Form 1125-A and elsewhere on return | 16b | | |
| | 16c | | 16c | | 13,014 |
| | 17 | Depletion (Do not deduct oil and gas depletion.) | 17 | | |
| | 18 | Retirement plans, etc. | 18 | | 15,000 |
| 19 | Employee benefit programs | 19 | | 10,000 | |
| 20 | Other deductions (attach statement) | 20 | | 349,000 | |
| 21 | Total deductions. Add the amounts shown in the far right column for lines 9 through 20 | 21 | | 989,014 | |
| 22 | Ordinary business income (loss). Subtract line 21 from line 8 | 22 | | 253,069 | |

| | | | | | |
|------------------------------|---|----------------------|--|---|-----------------|
| Sign Here | Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member manager) is based on all information of which preparer has any knowledge. | | | | |
| | Signature of general partner or limited liability company member manager | Date | May the IRS discuss this return with the preparer shown below (see instructions)? <input type="checkbox"/> Yes <input type="checkbox"/> No | | |
| Paid Preparer Use Only | Print/Type preparer's name | Preparer's signature | Date | Check <input type="checkbox"/> if self-employed | PTIN |
| | Firm's name ► | | | | Firm's EIN ► |
| | Firm's address ► | | | | Phone no. _____ |

Schedule B Other Information

| | | |
|--|------------|-----------|
| 1 What type of entity is filing this return? Check the applicable box: | Yes | No |
| a <input type="checkbox"/> Domestic general partnership b <input type="checkbox"/> Domestic limited partnership c <input type="checkbox"/> Domestic limited liability company d <input type="checkbox"/> Domestic limited liability partnership e <input type="checkbox"/> Foreign partnership f <input type="checkbox"/> Other ▶ | | |
| 2 At any time during the tax year, was any partner in the partnership a disregarded entity, a partnership (including an entity treated as a partnership), a trust, an S corporation, an estate (other than an estate of a deceased partner), or a nominee or similar person? | | ✓ |
| 3 At the end of the tax year: | | |
| a Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization, or any foreign government own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership b Did any individual or estate own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership | | ✓ |
| 4 At the end of the tax year, did the partnership: | | |
| a Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below | | ✓ |

| (i) Name of Corporation | (ii) Employer Identification Number (if any) | (iii) Country of Incorporation | (iv) Percentage Owned in Voting Stock |
|-------------------------|--|--------------------------------|---------------------------------------|
| | | | |
| | | | |
| | | | |
| | | | |

| | | |
|--|--|---|
| b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below | | ✓ |
|--|--|---|

| (i) Name of Entity | (ii) Employer Identification Number (if any) | (iii) Type of Entity | (iv) Country of Organization | (v) Maximum Percentage Owned in Profit, Loss, or Capital |
|--------------------|--|----------------------|------------------------------|--|
| | | | | |
| | | | | |
| | | | | |
| | | | | |

| | | |
|--|--|---|
| 5 Did the partnership file Form 8893, Election of Partnership Level Tax Treatment, or an election statement under section 6231(a)(1)(B)(ii) for partnership-level tax treatment, that is in effect for this tax year? See Form 8893 for more details | | ✓ |
| 6 Does the partnership satisfy all four of the following conditions? | | |
| a The partnership's total receipts for the tax year were less than \$250,000. b The partnership's total assets at the end of the tax year were less than \$1 million. c Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return. d The partnership is not filing and is not required to file Schedule M-3 If "Yes," the partnership is not required to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065; or Item L on Schedule K-1. | | ✓ |
| 7 Is this partnership a publicly traded partnership as defined in section 469(k)(2)? | | ✓ |
| 8 During the tax year, did the partnership have any debt that was cancelled, was forgiven, or had the terms modified so as to reduce the principal amount of the debt? | | ✓ |
| 9 Has this partnership filed, or is it required to file, Form 8918, Material Advisor Disclosure Statement, to provide information on any reportable transaction? | | ✓ |
| 10 At any time during calendar year 2012, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See the instructions for exceptions and filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts. If "Yes," enter the name of the foreign country. ▶ | | ✓ |

Schedule B Other Information (continued)

| | Yes | No |
|---|-----|----|
| 11 At any time during the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the partnership may have to file Form 3520, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts. See instructions | | ✓ |
| 12a Is the partnership making, or had it previously made (and not revoked), a section 754 election? See instructions for details regarding a section 754 election. | | ✓ |
| b Did the partnership make for this tax year an optional basis adjustment under section 743(b) or 734(b)? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions | | ✓ |
| c Is the partnership required to adjust the basis of partnership assets under section 743(b) or 734(b) because of a substantial built-in loss (as defined under section 743(d)) or substantial basis reduction (as defined under section 734(d))? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions. | | ✓ |
| 13 Check this box if, during the current or prior tax year, the partnership distributed any property received in a like-kind exchange or contributed such property to another entity (other than disregarded entities wholly-owned by the partnership throughout the tax year) <input type="checkbox"/> | | |
| 14 At any time during the tax year, did the partnership distribute to any partner a tenancy-in-common or other undivided interest in partnership property? | | ✓ |
| 15 If the partnership is required to file Form 8858, Information Return of U.S. Persons With Respect To Foreign Disregarded Entities, enter the number of Forms 8858 attached. See instructions ▶ | | |
| 16 Does the partnership have any foreign partners? If "Yes," enter the number of Forms 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax, filed for this partnership. ▶ | | ✓ |
| 17 Enter the number of Forms 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return. ▶ | | |
| 18a Did you make any payments in 2012 that would require you to file Form(s) 1099? See instructions | | ✓ |
| b If "Yes," did you or will you file required Form(s) 1099? | | |
| 19 Enter the number of Form(s) 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations, attached to this return. ▶ | | 0 |
| 20 Enter the number of partners that are foreign governments under section 892. ▶ | | 0 |

Designation of Tax Matters Partner (see instructions)

Enter below the general partner or member-manager designated as the tax matters partner (TMP) for the tax year of this return:

| | |
|---|-----------------------------|
| Name of designated TMP ▶ | Identifying number of TMP ▶ |
| If the TMP is an entity, name of TMP representative ▶ | Phone number of TMP ▶ |
| Address of designated TMP ▶ | |

| Schedule K Partners' Distributive Share Items | | Total amount | |
|---|--|---------------------|---------|
| Income (Loss) | 1 Ordinary business income (loss) (page 1, line 22) | 1 | 253,069 |
| | 2 Net rental real estate income (loss) (attach Form 8825) | 2 | |
| | 3a Other gross rental income (loss) 3a | | |
| | b Expenses from other rental activities (attach statement) 3b | | |
| | c Other net rental income (loss). Subtract line 3b from line 3a | 3c | |
| | 4 Guaranteed payments | 4 | 156,000 |
| | 5 Interest income | 5 | |
| | 6 Dividends: a Ordinary dividends 6a | | |
| | b Qualified dividends 6b | | |
| | 7 Royalties | 7 | |
| | 8 Net short-term capital gain (loss) (attach Schedule D (Form 1065)) | 8 | |
| 9a Net long-term capital gain (loss) (attach Schedule D (Form 1065)) | 9a | | |
| b Collectibles (28%) gain (loss) 9b | | | |
| c Unrecaptured section 1250 gain (attach statement) 9c | | | |
| 10 Net section 1231 gain (loss) (attach Form 4797) | 10 | (672) | |
| 11 Other income (loss) (see instructions) Type ▶ | 11 | | |
| Deductions | 12 Section 179 deduction (attach Form 4562) | 12 | 26,950 |
| | 13a Contributions | 13a | 562 |
| | b Investment interest expense | 13b | |
| | c Section 59(e)(2) expenditures: (1) Type ▶ (2) Amount ▶ | 13c(2) | |
| d Other deductions (see instructions) Type ▶ | 13d | | |
| Self-Employment | 14a Net earnings (loss) from self-employment | 14a | 281,493 |
| | b Gross farming or fishing income | 14b | |
| | c Gross nonfarm income | 14c | |
| Credits | 15a Low-income housing credit (section 42(j)(5)) | 15a | |
| | b Low-income housing credit (other) | 15b | |
| | c Qualified rehabilitation expenditures (rental real estate) (attach Form 3468) | 15c | |
| | d Other rental real estate credits (see instructions) Type ▶ | 15d | |
| | e Other rental credits (see instructions) Type ▶ | 15e | |
| | f Other credits (see instructions) Type ▶ | 15f | |
| Foreign Transactions | 16a Name of country or U.S. possession ▶ | | |
| | b Gross income from all sources | 16b | |
| | c Gross income sourced at partner level | 16c | |
| | Foreign gross income sourced at partnership level | | |
| | d Passive category ▶ e General category ▶ f Other ▶ | 16f | |
| | Deductions allocated and apportioned at partner level | | |
| | g Interest expense ▶ h Other ▶ | 16h | |
| | Deductions allocated and apportioned at partnership level to foreign source income | | |
| | i Passive category ▶ j General category ▶ k Other ▶ | 16k | |
| | l Total foreign taxes (check one): ▶ Paid <input type="checkbox"/> Accrued <input type="checkbox"/> | 16l | |
| m Reduction in taxes available for credit (attach statement) | 16m | | |
| n Other foreign tax information (attach statement) | | | |
| Alternative Minimum Tax (AMT) Items | 17a Post-1986 depreciation adjustment | 17a | |
| | b Adjusted gain or loss | 17b | |
| | c Depletion (other than oil and gas) | 17c | |
| | d Oil, gas, and geothermal properties—gross income | 17d | |
| | e Oil, gas, and geothermal properties—deductions | 17e | |
| | f Other AMT items (attach statement) | 17f | |
| Other Information | 18a Tax-exempt interest income | 18a | |
| | b Other tax-exempt income | 18b | |
| | c Nondeductible expenses | 18c | 5,000 |
| | 19a Distributions of cash and marketable securities | 19a | 156,000 |
| | b Distributions of other property | 19b | |
| | 20a Investment income | 20a | |
| | b Investment expenses | 20b | |
| c Other items and amounts (attach statement) | | | |

Schedule K-1
(Form 1065)Department of the Treasury
Internal Revenue Service

2012

For calendar year 2012, or tax
year beginning _____, 2012
ending _____, 20____Partner's Share of Income, Deductions,
Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
69-3456789

B Partnership's name, address, city, state, and ZIP code

Rite-Way Plumbing Company
124 Division Lane
Satatosa, FL 33545C IRS Center where partnership filed return
Ogden, UtahD ☐ Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number
666-66-6666

F Partner's name, address, city, state, and ZIP code

James Henry

G ☒ General partner or LLC member-manager ☐ Limited partner or other LLC memberH ☐ Domestic partner ☐ Foreign partner

I1 What type of entity is this partner? (see instructions) Individual

I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here (see instructions) ☐

J Partner's share of profit, loss, and capital (see instructions):

| | Beginning | Ending |
|---------|-----------|--------|
| Profit | 25 % | 25 % |
| Loss | 25 % | 25 % |
| Capital | 25 % | 25 % |

K Partner's share of liabilities at year end:

Nonrecourse \$ _____
Qualified nonrecourse financing \$ _____
Recourse \$ _____

L Partner's capital account analysis:

Beginning capital account \$ _____
Capital contributed during the year \$ _____
Current year increase (decrease) \$ _____
Withdrawals & distributions \$ (_____)
Ending capital account \$ _____☐ Tax basis ☐ GAAP ☐ Section 704(b) book
☐ Other (explain)

M Did the partner contribute property with a built-in gain or loss?

☐ Yes ☐ No
If "Yes," attach statement (see instructions)☐ Final K-1☐ Amended K-1651112
OMB No. 1545-0099Part III Partner's Share of Current Year Income,
Deductions, Credits, and Other Items

| | | | |
|----|--------------------------------------|----|--|
| 1 | Ordinary business income (loss) | 15 | Credits |
| | 63,267 | | |
| 2 | Net rental real estate income (loss) | | |
| 3 | Other net rental income (loss) | 16 | Foreign transactions |
| 4 | Guaranteed payments | | |
| | 78,000 | | |
| 5 | Interest income | | |
| 6a | Ordinary dividends | | |
| 6b | Qualified dividends | | |
| 7 | Royalties | | |
| 8 | Net short-term capital gain (loss) | | |
| 9a | Net long-term capital gain (loss) | 17 | Alternative minimum tax (AMT) items |
| 9b | Collectibles (28%) gain (loss) | | |
| 9c | Unrecaptured section 1250 gain | | |
| 10 | Net section 1231 gain (loss) | 18 | Tax-exempt income and nondeductible expenses |
| | (168) | | |
| 11 | Other income (loss) | C | 1,250 |
| | | | |
| | | | |
| | | | |
| 12 | Section 179 deduction | 19 | Distributions |
| | 6,738 | A | 78,000 |
| 13 | Other deductions | | |
| C | 141 | 20 | Other information |
| | | | |
| | | | |
| 14 | Self-employment earnings (loss) | | |
| A | 140,747 | | |

*See attached statement for additional information.

For IRS Use Only

**Schedule K-1
(Form 1065)**

Department of the Treasury
Internal Revenue Service

2012

For calendar year 2012, or tax
year beginning _____, 2012
ending _____, 20 _____

**Partner's Share of Income, Deductions,
Credits, etc.**

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
69-3456789

B Partnership's name, address, city, state, and ZIP code

Rite-Way Plumbing Company
124 Division Lane
Sarasota, FL 33545

C IRS Center where partnership filed return
Ogden, Utah

D ☐ Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number
555-55-5555

F Partner's name, address, city, state, and ZIP code

John Henry

G ☒ General partner or LLC member-manager ☐ Limited partner or other LLC member

H ☐ Domestic partner ☐ Foreign partner

I1 What type of entity is this partner? (see instructions) Individual

I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here (see instructions) ☐

J Partner's share of profit, loss, and capital (see instructions):

| | Beginning | Ending |
|---------|-----------|--------|
| Profit | 25 % | 25 % |
| Loss | 25 % | 25 % |
| Capital | 25 % | 25 % |

K Partner's share of liabilities at year end:

Nonrecourse \$ _____
Qualified nonrecourse financing . . . \$ _____
Recourse \$ _____

L Partner's capital account analysis:

Beginning capital account . . . \$ _____
Capital contributed during the year \$ _____
Current year increase (decrease) . . . \$ _____
Withdrawals & distributions . . . \$ (_____)
Ending capital account \$ _____

☐ Tax basis ☐ GAAP ☐ Section 704(b) book
☐ Other (explain)

M Did the partner contribute property with a built-in gain or loss?

☐ Yes ☐ No
If "Yes," attach statement (see instructions)

☐ Final K-1

☐ Amended K-1

651112
OMB No. 1545-0099

**Part III Partner's Share of Current Year Income,
Deductions, Credits, and Other Items**

| | | | |
|-----------|--------------------------------------|-----------|--|
| 1 | Ordinary business income (loss) | 15 | Credits |
| | 63,267 | | |
| 2 | Net rental real estate income (loss) | | |
| 3 | Other net rental income (loss) | 16 | Foreign transactions |
| 4 | Guaranteed payments | | |
| | 78,000 | | |
| 5 | Interest income | | |
| 6a | Ordinary dividends | | |
| 6b | Qualified dividends | | |
| 7 | Royalties | | |
| 8 | Net short-term capital gain (loss) | | |
| 9a | Net long-term capital gain (loss) | 17 | Alternative minimum tax (AMT) items |
| 9b | Collectibles (28%) gain (loss) | | |
| 9c | Unrecaptured section 1250 gain | | |
| 10 | Net section 1231 gain (loss) | 18 | Tax-exempt income and nondeductible expenses |
| | (168) | | |
| 11 | Other income (loss) | C | 1,250 |
| | | | |
| | | | |
| | | 19 | Distributions |
| 12 | Section 179 deduction | A | 78,000 |
| | 6,738 | | |
| 13 | Other deductions | | |
| C | 141 | 20 | Other information |
| | | | |
| | | | |
| 14 | Self-employment earnings (loss) | | |
| A | 140,747 | | |

*See attached statement for additional information.

For IRS Use Only

Schedule K-1
(Form 1065)

Department of the Treasury
Internal Revenue Service

2012

For calendar year 2012, or tax
year beginning _____, 2012
ending _____, 20 _____

Partner's Share of Income, Deductions,
Credits, etc.

▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
69-3456789

B Partnership's name, address, city, state, and ZIP code

Rite-Way Plumbing Company
124 Division Lane
Satatosa, FL 33545

C IRS Center where partnership filed return
Ogden, Utah

D ☐ Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number
888-88-8888

F Partner's name, address, city, state, and ZIP code

Tom Henry

G ☐ General partner or LLC member-manager ☒ Limited partner or other LLC member

H ☐ Domestic partner ☐ Foreign partner

I1 What type of entity is this partner? (see instructions) Individual

I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here (see instructions) ☐

J Partner's share of profit, loss, and capital (see instructions):

| | Beginning | Ending |
|---------|-----------|--------|
| Profit | 50 % | 50 % |
| Loss | 50 % | 50 % |
| Capital | 50 % | 50 % |

K Partner's share of liabilities at year end:

Nonrecourse \$ _____
Qualified nonrecourse financing \$ _____
Recourse \$ _____

L Partner's capital account analysis:

Beginning capital account \$ _____
Capital contributed during the year \$ _____
Current year increase (decrease) \$ _____
Withdrawals & distributions \$ (_____)
Ending capital account \$ _____

☐ Tax basis ☐ GAAP ☐ Section 704(b) book
☐ Other (explain) _____

M Did the partner contribute property with a built-in gain or loss?

☐ Yes ☐ No
If "Yes," attach statement (see instructions)

☐ Final K-1

☐ Amended K-1

651112
OMB No. 1545-0099

Part III Partner's Share of Current Year Income,
Deductions, Credits, and Other Items

| | | | |
|----|--------------------------------------|----|--|
| 1 | Ordinary business income (loss) | 15 | Credits |
| | 126,535 | | |
| 2 | Net rental real estate income (loss) | | |
| 3 | Other net rental income (loss) | 16 | Foreign transactions |
| 4 | Guaranteed payments | | |
| 5 | Interest income | | |
| 6a | Ordinary dividends | | |
| 6b | Qualified dividends | | |
| 7 | Royalties | | |
| 8 | Net short-term capital gain (loss) | | |
| 9a | Net long-term capital gain (loss) | 17 | Alternative minimum tax (AMT) items |
| 9b | Collectibles (28%) gain (loss) | | |
| 9c | Unrecaptured section 1250 gain | | |
| 10 | Net section 1231 gain (loss) | 18 | Tax-exempt income and nondeductible expenses |
| | (336) | | |
| 11 | Other income (loss) | C | 2,500 |
| | | | |
| | | | |
| | | | |
| 12 | Section 179 deduction | 19 | Distributions |
| | 13,475 | | |
| 13 | Other deductions | | |
| C | 281 | 20 | Other information |
| | | | |
| | | | |
| 14 | Self-employment earnings (loss) | | |
| | | | |

*See attached statement for additional information.

For IRS Use Only

This list identifies the codes used on Schedule K-1 for all partners and provides summarized reporting information for partners who file Form 1040. For detailed reporting and filing information, see the separate Partner's Instructions for Schedule K-1 and the instructions for your income tax return.

1. Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows.

| | <i>Report on</i> |
|-------------------|---------------------------------|
| Passive loss | See the Partner's Instructions |
| Passive income | Schedule E, line 28, column (g) |
| Nonpassive loss | Schedule E, line 28, column (h) |
| Nonpassive income | Schedule E, line 28, column (j) |

2. Net rental real estate income (loss)

See the Partner's Instructions

3. Other net rental income (loss)

| | |
|------------|---------------------------------|
| Net income | Schedule E, line 28, column (g) |
| Net loss | See the Partner's Instructions |

4. Guaranteed payments

Schedule E, line 28, column (j)

5. Interest income

Form 1040, line 8a

6a. Ordinary dividends

Form 1040, line 9a

6b. Qualified dividends

Form 1040, line 9b

7. Royalties

Schedule E, line 4

8. Net short-term capital gain (loss)

Schedule D, line 5

9a. Net long-term capital gain (loss)

Schedule D, line 12

9b. Collectibles (28%) gain (loss)

28% Rate Gain Worksheet, line 4
(Schedule D instructions)

9c. Unrecaptured section 1250 gain

See the Partner's Instructions

10. Net section 1231 gain (loss)

See the Partner's Instructions

11. Other income (loss)

| | <i>Code</i> | |
|--------------------------------------|-------------|--------------------------------|
| A Other portfolio income (loss) | | See the Partner's Instructions |
| B Involuntary conversions | | See the Partner's Instructions |
| C Sec. 1256 contracts & straddles | | Form 6781, line 1 |
| D Mining exploration costs recapture | | See Pub. 535 |
| E Cancellation of debt | | Form 1040, line 21 or Form 982 |
| F Other income (loss) | | See the Partner's Instructions |

12. Section 179 deduction

See the Partner's Instructions

13. Other deductions

| | |
|---|--|
| A Cash contributions (50%) | See the Partner's Instructions |
| B Cash contributions (30%) | |
| C Noncash contributions (50%) | |
| D Noncash contributions (30%) | |
| E Capital gain property to a 50% organization (30%) | |
| F Capital gain property (20%) | See the Partner's Instructions |
| G Contributions (100%) | |
| H Investment interest expense | |
| I Deductions—royalty income | |
| J Section 59(e)(2) expenditures | |
| K Deductions—portfolio (2% floor) | See the Partner's Instructions |
| L Deductions—portfolio (other) | |
| M Amounts paid for medical insurance | Schedule A, line 1 or Form 1040, line 29 |
| N Educational assistance benefits | See the Partner's Instructions |
| O Dependent care benefits | Form 2441, line 12 |
| P Preproductive period expenses | See the Partner's Instructions |
| Q Commercial revitalization deduction | See Form 8582 instructions |
| R Pensions and IRAs | See the Partner's Instructions |
| S Reforestation expense deduction | See the Partner's Instructions |
| T Domestic production activities information | See Form 8903 instructions |
| U Qualified production activities income | Form 8903, line 7b |
| V Employer's Form W-2 wages | Form 8903, line 17 |
| W Other deductions | See the Partner's Instructions |

14. Self-employment earnings (loss)

Note. If you have a section 179 deduction or any partner-level deductions, see the Partner's Instructions before completing Schedule SE.

| | |
|--|--------------------------------|
| A Net earnings (loss) from self-employment | Schedule SE, Section A or B |
| B Gross farming or fishing income | See the Partner's Instructions |
| C Gross non-farm income | See the Partner's Instructions |

15. Credits

| | |
|---|---------------------------------|
| A Low-income housing credit (section 42(j)(5)) from pre-2008 buildings | See the Partner's Instructions |
| B Low-income housing credit (other) from pre-2008 buildings | |
| C Low-income housing credit (section 42(j)(5)) from post-2007 buildings | |
| D Low-income housing credit (other) from post-2007 buildings | |
| E Qualified rehabilitation expenditures (rental real estate) | |
| F Other rental real estate credits | See the Partner's Instructions |
| G Other rental credits | |
| H Undistributed capital gains credit | |
| I Alcohol and cellulosic biofuel fuels credit | |
| | Form 1040, line 71; check box a |
| | See the Partner's Instructions |

| Code | Report on |
|---|---|
| J Work opportunity credit | See the Partner's Instructions |
| K Disabled access credit | |
| L Empowerment zone and renewal community employment credit | |
| M Credit for increasing research activities | |
| N Credit for employer social security and Medicare taxes | |
| O Backup withholding | |
| P Other credits | |
| Foreign transactions | |
| A Name of country or U.S. possession | Form 1116, Part I |
| B Gross income from all sources | |
| C Gross income sourced at partner level | |
| <i>Foreign gross income sourced at partnership level</i> | |
| D Passive category | Form 1116, Part I |
| E General category | |
| F Other | |
| <i>Deductions allocated and apportioned at partner level</i> | |
| G Interest expense | Form 1116, Part I |
| H Other | Form 1116, Part I |
| <i>Deductions allocated and apportioned at partnership level to foreign source income</i> | |
| I Passive category | Form 1116, Part I |
| J General category | |
| K Other | |
| <i>Other information</i> | |
| L Total foreign taxes paid | Form 1116, Part II |
| M Total foreign taxes accrued | Form 1116, Part II |
| N Reduction in taxes available for credit | Form 1116, line 12 |
| O Foreign trading gross receipts | Form 8873 |
| P Extraterritorial income exclusion | Form 8873 |
| Q Other foreign transactions | See the Partner's Instructions |
| Alternative minimum tax (AMT) items | |
| A Post-1986 depreciation adjustment | See the Partner's Instructions and the Instructions for Form 6251 |
| B Adjusted gain or loss | |
| C Depletion (other than oil & gas) | |
| D Oil, gas, & geothermal—gross income | |
| E Oil, gas, & geothermal—deductions | |
| F Other AMT items | |
| Tax-exempt income and nondeductible expenses | |
| A Tax-exempt interest income | Form 1040, line 8b |
| B Other tax-exempt income | See the Partner's Instructions |
| C Nondeductible expenses | See the Partner's Instructions |
| Distributions | |
| A Cash and marketable securities | See the Partner's Instructions |
| B Distribution subject to section 737 | |
| C Other property | |
| Other information | |
| A Investment income | Form 4952, line 4a |
| B Investment expenses | Form 4952, line 5 |
| C Fuel tax credit information | Form 4136 |
| D Qualified rehabilitation expenditures (other than rental real estate) | See the Partner's Instructions |
| E Basis of energy property | See the Partner's Instructions |
| F Recapture of low-income housing credit (section 42(j)(5)) | Form 8611, line 8 |
| G Recapture of low-income housing credit (other) | Form 8611, line 8 |
| H Recapture of investment credit | See Form 4255 |
| I Recapture of other credits | See the Partner's Instructions |
| J Look-back interest—completed long-term contracts | See Form 8697 |
| K Look-back interest—income forecast method | See Form 8866 |
| L Dispositions of property with section 179 deductions | See the Partner's Instructions |
| M Recapture of section 179 deduction | |
| N Interest expense for corporate partners | |
| O Section 453(l)(3) information | |
| P Section 453A(c) information | |
| Q Section 1260(b) information | |
| R Interest allocable to production expenditures | |
| S CCF nonqualified withdrawals | |
| T Depletion information—oil and gas | |
| U Amortization of reforestation costs | |
| V Unrelated business taxable income | |
| W Precontribution gain (loss) | |
| X Section 108(i) information | |
| Y Other information | |

Sales of Business Property
(Also Involuntary Conversions and Recapture Amounts
Under Sections 179 and 280F(b)(2))

▶ Attach to your tax return.

▶ Information about Form 4797 and its separate instructions is at www.irs.gov/form4797.

OMB No. 1545-0184

2012Attachment
Sequence No. **27**

Name(s) shown on return

Rite-Way Plumbing

Identifying number

69-3456789

- 1** Enter the gross proceeds from sales or exchanges reported to you for 2012 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions)

1**Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year** (see instructions)

| 2 | (a) Description of property | (b) Date acquired (mo., day, yr.) | (c) Date sold (mo., day, yr.) | (d) Gross sales price | (e) Depreciation allowed or allowable since acquisition | (f) Cost or other basis, plus improvements and expense of sale | (g) Gain or (loss) Subtract (f) from the sum of (d) and (e) |
|----------|---|--|--------------------------------------|------------------------------|--|---|--|
| | Computer | 3/2009 | 9/12/2012 | 250 | 3,078 | 4,000 | (672) |
| | | | | | | | |
| | | | | | | | |
| 3 | Gain, if any, from Form 4684, line 39 | | | | | | 3 |
| 4 | Section 1231 gain from installment sales from Form 6252, line 26 or 37 | | | | | | 4 |
| 5 | Section 1231 gain or (loss) from like-kind exchanges from Form 8824 | | | | | | 5 |
| 6 | Gain, if any, from line 32, from other than casualty or theft. | | | | | | 6 |
| 7 | Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows: | | | | | | 7 |
| | Partnerships (except electing large partnerships) and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below. Individuals, partners, S corporation shareholders, and all others. If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below. | | | | | | |
| 8 | Nonrecaptured net section 1231 losses from prior years (see instructions) | | | | | | 8 |
| 9 | Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions) | | | | | | 9 |

(672)

Part II Ordinary Gains and Losses (see instructions)

- 10** Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):

| | | | | | | |
|-----------|---|--|--|--|--|------------|
| | | | | | | |
| | | | | | | |
| | | | | | | |
| 11 | Loss, if any, from line 7 | | | | | 11 |
| 12 | Gain, if any, from line 7 or amount from line 8, if applicable | | | | | 12 |
| 13 | Gain, if any, from line 31 | | | | | 13 |
| 14 | Net gain or (loss) from Form 4684, lines 31 and 38a | | | | | 14 |
| 15 | Ordinary gain from installment sales from Form 6252, line 25 or 36 | | | | | 15 |
| 16 | Ordinary gain or (loss) from like-kind exchanges from Form 8824. | | | | | 16 |
| 17 | Combine lines 10 through 16 | | | | | 17 |
| 18 | For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below: | | | | | |
| a | If the loss on line 11 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 28, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 23. Identify as from "Form 4797, line 18a." See instructions | | | | | 18a |
| b | Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14 | | | | | 18b |

2,083

2,083

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 130861

Form **4797** (2012)

Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255
 (see instructions)

| 19 (a) Description of section 1245, 1250, 1252, 1254, or 1255 property: | | (b) Date acquired (mo., day, yr.) | (c) Date sold (mo., day, yr.) |
|---|--|--------------------------------------|----------------------------------|
| A Truck | | 3/2009 | 2/12/2012 |
| B | | | |
| C | | | |
| D | | | |

| These columns relate to the properties on lines 19A through 19D. ▶ | | Property A | Property B | Property C | Property D |
|---|---|------------|------------|------------|------------|
| 20 | Gross sales price (Note: See line 1 before completing.) | 20 6,000 | | | |
| 21 | Cost or other basis plus expense of sale | 21 17,000 | | | |
| 22 | Depreciation (or depletion) allowed or allowable. | 22 13,083 | | | |
| 23 | Adjusted basis. Subtract line 22 from line 21. | 23 3,917 | | | |
| 24 | Total gain. Subtract line 23 from line 20 | 24 2,083 | | | |
| 25 If section 1245 property: | | | | | |
| a | Depreciation allowed or allowable from line 22 | 25a 13,083 | | | |
| b | Enter the smaller of line 24 or 25a | 25b 2,083 | | | |
| 26 If section 1250 property: If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291. | | | | | |
| a | Additional depreciation after 1975 (see instructions) | 26a | | | |
| b | Applicable percentage multiplied by the smaller of line 24 or line 26a (see instructions) | 26b | | | |
| c | Subtract line 26a from line 24. If residential rental property or line 24 is not more than line 26a, skip lines 26d and 26e | 26c | | | |
| d | Additional depreciation after 1969 and before 1976. | 26d | | | |
| e | Enter the smaller of line 26c or 26d | 26e | | | |
| f | Section 291 amount (corporations only) | 26f | | | |
| g | Add lines 26b, 26e, and 26f. | 26g | | | |
| 27 If section 1252 property: Skip this section if you did not dispose of farmland or if this form is being completed for a partnership (other than an electing large partnership). | | | | | |
| a | Soil, water, and land clearing expenses | 27a | | | |
| b | Line 27a multiplied by applicable percentage (see instructions) | 27b | | | |
| c | Enter the smaller of line 24 or 27b | 27c | | | |
| 28 If section 1254 property: | | | | | |
| a | Intangible drilling and development costs, expenditures for development of mines and other natural deposits, mining exploration costs, and depletion (see instructions) | 28a | | | |
| b | Enter the smaller of line 24 or 28a | 28b | | | |
| 29 If section 1255 property: | | | | | |
| a | Applicable percentage of payments excluded from income under section 126 (see instructions) | 29a | | | |
| b | Enter the smaller of line 24 or 29a (see instructions) | 29b | | | |

Summary of Part III Gains. Complete property columns A through D through line 29b before going to line 30.

| | | |
|----|---|----------|
| 30 | Total gains for all properties. Add property columns A through D, line 24 | 30 2,083 |
| 31 | Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13 | 31 2,083 |
| 32 | Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 33. Enter the portion from other than casualty or theft on Form 4797, line 6 | 32 |

Part IV Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less
 (see instructions)

| | (a) Section 179 | (b) Section 280F(b)(2) |
|--|-----------------|------------------------|
| 33 Section 179 expense deduction or depreciation allowable in prior years. | 33 | |
| 34 Recomputed depreciation (see instructions) | 34 | |
| 35 Recapture amount. Subtract line 34 from line 33. See the instructions for where to report | 35 | |

Depreciation and Amortization
(Including Information on Listed Property)

▶ See separate instructions.

▶ Attach to your tax return.

Name(s) shown on return

Business or activity to which this form relates

Identifying number

Rite-Way Plumbing

Plumbing Contractor

69-3456789

Part I Election To Expense Certain Property Under Section 179**Note:** If you have any listed property, complete Part V before you complete Part I.

| | | | |
|----|---|------------------------------|------------------|
| 1 | Maximum amount (see instructions) | 1 | 500,000 |
| 2 | Total cost of section 179 property placed in service (see instructions) | 2 | 26,950 |
| 3 | Threshold cost of section 179 property before reduction in limitation (see instructions) | 3 | 2,000,000 |
| 4 | Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0- | 4 | 0 |
| 5 | Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions | 5 | 500,000 |
| 6 | (a) Description of property | (b) Cost (business use only) | (c) Elected cost |
| | Truck, Computer System, Office Furniture | 26,950 | 26,950 |
| 7 | Listed property. Enter the amount from line 29 | 7 | |
| 8 | Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7 | 8 | 26,950 |
| 9 | Tentative deduction. Enter the smaller of line 5 or line 8 | 9 | 26,950 |
| 10 | Carryover of disallowed deduction from line 13 of your 2011 Form 4562 | 10 | |
| 11 | Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions) | 11 | 253,069 |
| 12 | Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11 | 12 | 26,950 |
| 13 | Carryover of disallowed deduction to 2013. Add lines 9 and 10, less line 12 ▶ | 13 | |

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.**Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.)** (See instructions.)

| | | | |
|----|---|----|--|
| 14 | Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions) | 14 | |
| 15 | Property subject to section 168(f)(1) election | 15 | |
| 16 | Other depreciation (including ACRS) | 16 | |

Part III MACRS Depreciation (Do not include listed property.) (See instructions.)**Section A**

| | | | |
|----|--|----|--------|
| 17 | MACRS deductions for assets placed in service in tax years beginning before 2012 | 17 | 13,014 |
| 18 | If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here <input type="checkbox"/> | | |

Section B—Assets Placed in Service During 2012 Tax Year Using the General Depreciation System

| (a) Classification of property | (b) Month and year placed in service | (c) Basis for depreciation (business/investment use only—see instructions) | (d) Recovery period | (e) Convention | (f) Method | (g) Depreciation deduction |
|--------------------------------|--------------------------------------|--|---------------------|----------------|------------|----------------------------|
| 19a 3-year property | | | | | | |
| b 5-year property | | | | | | |
| c 7-year property | | | | | | |
| d 10-year property | | | | | | |
| e 15-year property | | | | | | |
| f 20-year property | | | | | | |
| g 25-year property | | | 25 yrs. | | S/L | |
| h Residential rental property | | | 27.5 yrs. | MM | S/L | |
| | | | 27.5 yrs. | MM | S/L | |
| i Nonresidential real property | | | 39 yrs. | MM | S/L | |
| | | | | MM | S/L | |

Section C—Assets Placed in Service During 2012 Tax Year Using the Alternative Depreciation System

| | | | | | | |
|----------------|--|--|---------|----|-----|--|
| 20a Class life | | | | | S/L | |
| b 12-year | | | 12 yrs. | | S/L | |
| c 40-year | | | 40 yrs. | MM | S/L | |

Part IV Summary (See instructions.)

| | | | |
|----|---|----|--------|
| 21 | Listed property. Enter amount from line 28 | 21 | |
| 22 | Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instructions | 22 | 39,964 |
| 23 | For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs | 23 | |