

1040 PASSIVE LOSSES

Categorize income and loss as either passive or nonpassive on the **Activity Information** screen.

Enter each activity separately to keep the tax treatment correct.

Carryover screens are available through each activity, or use the Form 8582 workpapers to review the carryovers for all activities.

The tax application also generates Form 8582 for Alternative Minimum Tax purposes.

For Schedule K-1 data entry:

- 1. Passive and nonpassive income can be entered in the same Schedule K-1 activity.
- 2. Activity type is important for Schedule K-1 data entry to determine if the deductions, AMT adjustments, and credits are passive or nonpassive.

TOPICS

- Return and Print Options (page 2)
- Data Entry (page 3)
- Passive Loss Carryovers (page 7)
- Activity Disposition (page 8)
- Prior Passive Activities (page 13)
- Aggregate Rental Real Estate Interests (page 15)
- Form 8582 AMT (page 15)
- Reviewing Form 8582 (page 16)

RETURN AND PRINT OPTIONS

The system default is to print Form 8582 and all supporting worksheets. You can select to suppress Form 8582 and/or all worksheets in the **General Information > Return and Print Options > Tax Form Options** (cont'd) folder.

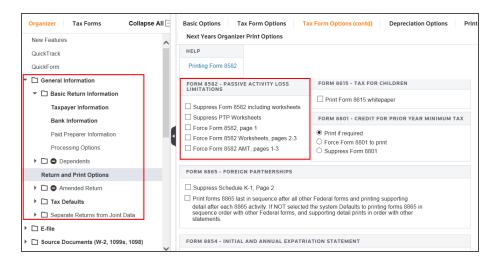


Figure 1

The option to suppress the print of Form 8582 and supporting worksheets is also available on the **Passive Loss Processing** screen in the **Income > Passive Loss Processing** folder.

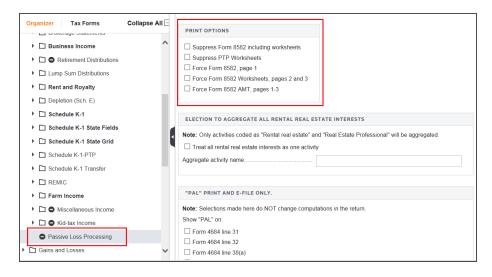


Figure 2

DATA ENTRY

For any activity that can have passive income, use the fields provided on the **Activity Information** tab of the Organizer to specify the activity type and participation level for the property. The following activities can have passive income:

- Business Income
- Rent and Royalty
- Schedule K-1
- Schedule K-1-PTP
- Farm Income

This is the **Activity Information** tab for rental property. You must enter a description in the **Rental Name** field, select the **Property type**, and enter an address in the address fields; these are required entries.

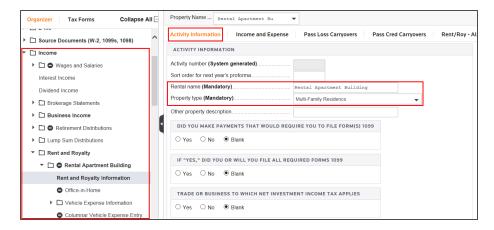


Figure 3

Scroll down the **Activity Information** group box for rental property. Select the applicable **Activity Type**. Income (loss) from activities coded as *Rental real estate - Does not actively participate*, *Rental real estate - Active participation*, and *Other passive* automatically carry to the passive activity loss computations on Form 8582.

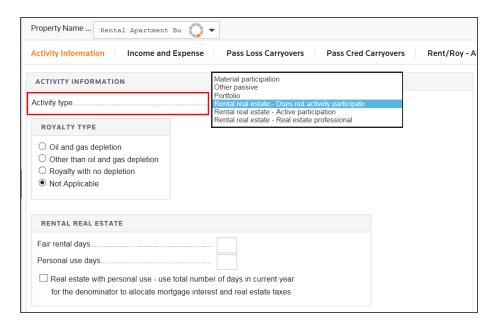


Figure 4

The **Activity Information** tab for farm activities is similar to that for rental property. Scroll down this screen to select the activity type and participation options for farm activities.

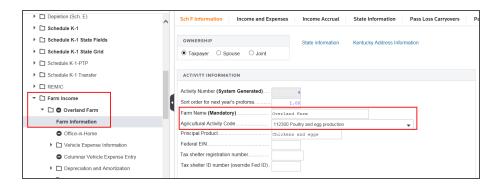


Figure 5

It is a good practice to review the Organizer screens for each activity to ensure that passive/nonpassive options are correctly selected. Notice that the farm options are different than the rental properties or the Schedule K-1s.

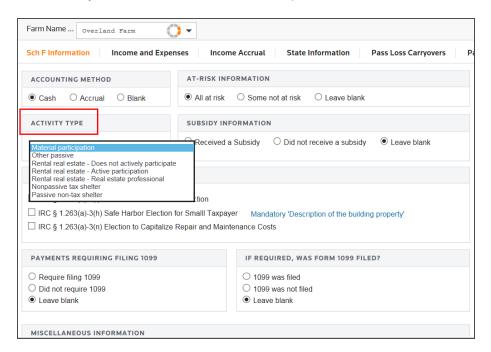


Figure 6

If the taxpayer receives a K-1 with multiple activities, the passive and non-passive income from these activities can be entered on the same K-1 if the deductions and AMT adjustments are either passive or non-passive. If there are both passive and non-passive deductions and AMT adjustments, then each activity should be entered separately to specify different tax treatments. It is possible to have more than one type of income from a single activity.

Portfolio income may be included in an activity that, as a whole, is treated as earned income, or passive income from rental real estate, or other passive income. The net income attributable to portfolio items carries to Schedule B. The investment interest expense attributable to portfolio income carries to Schedule A, line 13.

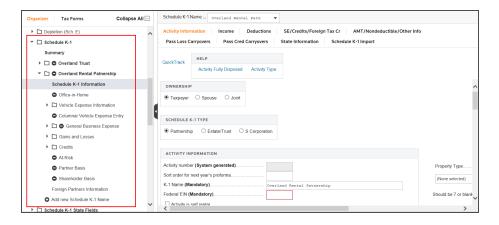


Figure 7

This taxpayer *actively* participates in the partnership's rental real estate activity. Current year passive income or loss will flow to Form 8582, Worksheet 1.

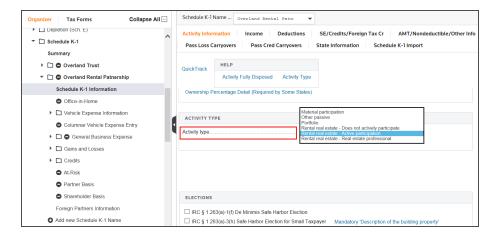


Figure 8

Here is the RX-Rentals - Equipment with *passive* participation. Current year passive income or loss will flow to Form 8582, Worksheet 3.

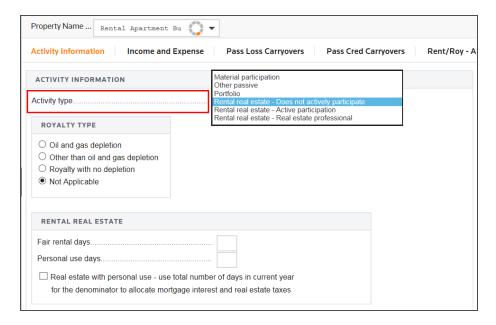


Figure 9

PASSIVE LOSS CARRYOVERS

The **Passive Loss Carryovers** tab is accessible from any activity where suspended losses can occur. All carryovers are used in the calculation of allowable current-year income (loss) from a passive activity.

Ordinary loss carryovers and carryovers from Schedule D and Form 4797 should only be entered on the **Passive Loss Carryovers** tab. The carryovers should not be entered on Form 8582 workpapers. The **Passive Loss Carryovers** tab is available for the following activities:

- Business Income (Schedule C)
- Schedule K-1 Information
- PTP Schedule K-1 Information
- Rents & Royalty
- Farm Income

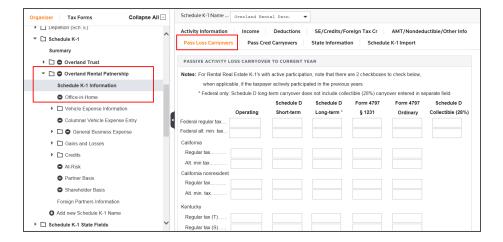


Figure 10

If an activity is not disposed of in the current year, suspended loss carryovers are allowed to the extent of current year passive income.

If an activity is fully disposed of in the current year, all suspended loss carryovers are allowed in full.

ACTIVITY DISPOSITION

To indicate that an activity is fully disposed, you must check the check box on the **Activity Information** tab. This check box triggers the automatic passive disposition treatment and allows all suspended losses to be used. The tax application automatically recognizes the suspended loss carryovers and calculates Form 8582.

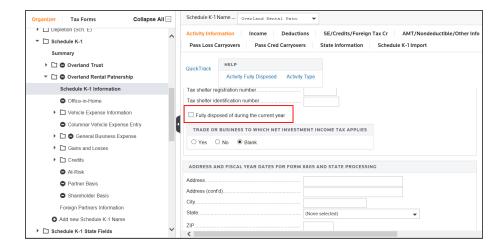


Figure 11

Each activity has a **Gains and Losses** folder used to record the gains or losses from the disposition of the activity.

In this example, we will illustrate the disposition as the sale of business property. To add the activity to this folder, click **Add new Sale of Business Property**, and enter the name of the activity being disposed of.

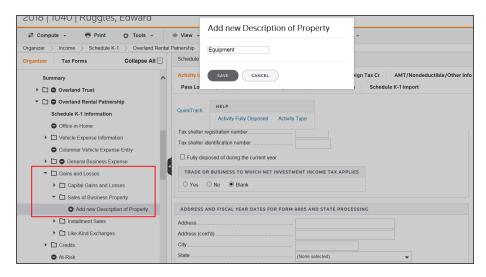


Figure 12

You must select the **Type of sale**; this is a *mandatory* entry.

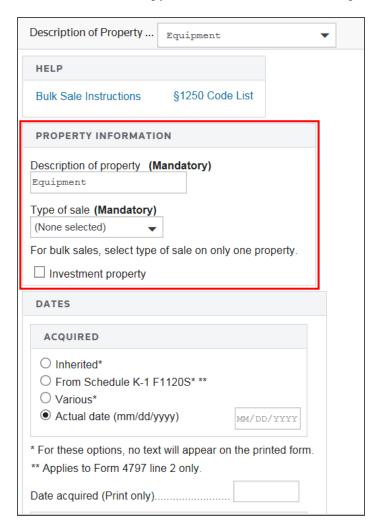


Figure 13

Enter the **Date acquired** and **Date sold** in the applicable fields.

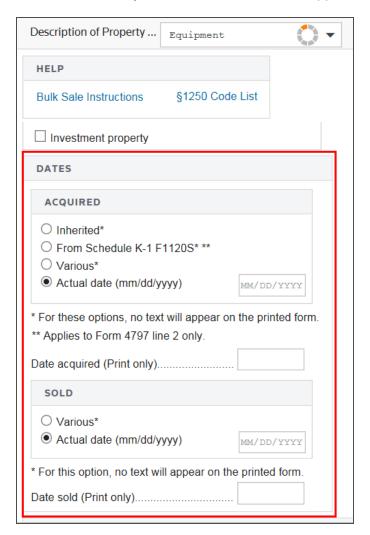


Figure 14

Scroll down the **Sale of Business Property** screen to enter the **Gross sales price** and the **Cost or other basis** in the fields provided.

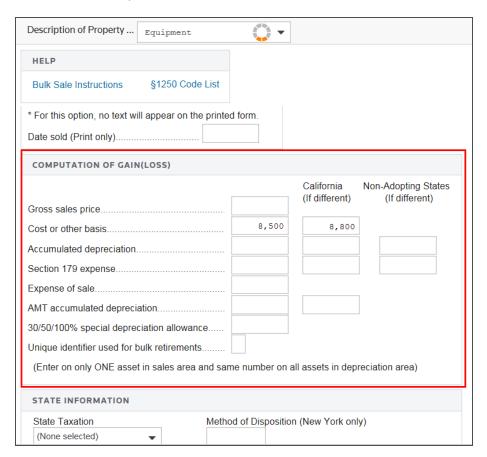


Figure 15

If the entire interest in a passive activity is disposed of in a fully taxable disposition to an unrelated party, the following computations are made:

- If the disposition results in an overall loss, the losses in the year of disposition are allowed in full.
- If there is an overall gain on the disposition, the income (loss) amounts carry to Form 8582 and the gain is used to offset passive losses from other activities.

Gains and losses on dispositions of less than an entire interest carry to Form 8582 and are subject to the passive activity loss rules.

To determine overall loss, combine all current-year income (loss) associated with the activity and the activity's suspended losses. Gain (loss) on the disposition is not subject to the passive activity rules and does not carry to Form 8582.

PRIOR PASSIVE ACTIVITIES

Taxpayers can potentially qualify to treat some or all of their nonpassive activities as former passive activities. The activity type must be a nonpassive activity type and there must be passive loss carryovers on the **Passive Loss Carryovers** tabs.

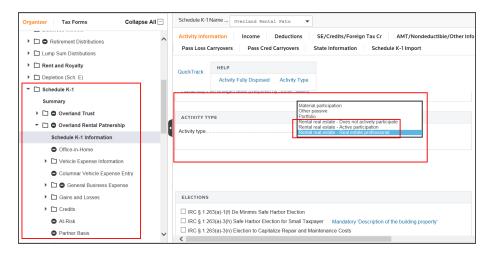


Figure 16

The prior-year disallowed loss of a former passive activity is allowed to the extent of the net income from the activity, with the remainder subject to passive activity loss rules.

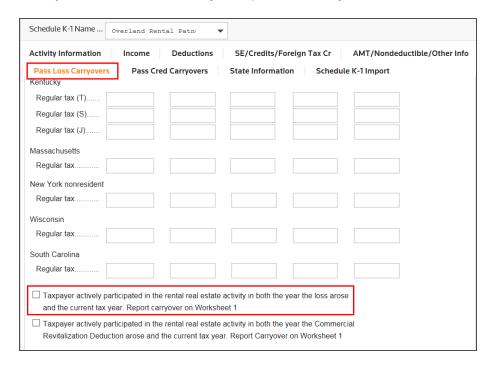


Figure 17

Select the *Taxpayer actively participated in the rental real estate activity in both the year the loss arose and in the current tax year* option on the **Passive Loss Carryovers** tab to report prior-year disallowed loss on Worksheet 1 of Form 8582. This loss will also be eligible for the special allowance for rental real estate with active participation. If this field is not checked, the passive loss carryover will be reported on Form 8582, Worksheet 3.

AGGREGATE RENTAL REAL ESTATE INTERESTS

Each interest in rental real estate is treated as a separate activity and participation must be determined separately, unless an election is made to treat all interests in rental real estate as one activity. This election can be made on the **Income > Passive Loss Processing** screen. The election makes it easier to meet the participation requirements. The election permits net income from the aggregate rental activity to offset prioryear disallowed losses, no matter which activity produced the income or the prior-year disallowed loss.

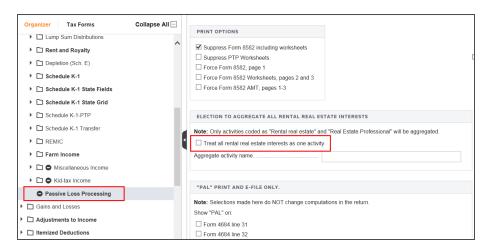


Figure 18

FORM 8582 AMT

A supplemental Form 8582 automatically prints for AMT. The passive loss is recomputed, taking into consideration the AMT adjustments from each activity and adding back the tax preference items.

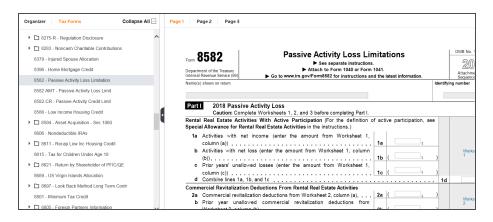


Figure 19

The system automatically takes into the calculation suspended loss carryovers entered on the activity for AMT purposes.

REVIEWING FORM 8582

To review Form 8582, start with the federal Tax Form and use the hyperlinks to access the supporting workpapers. In this example, you will have to drill down from one workpaper to the workpaper beneath it.

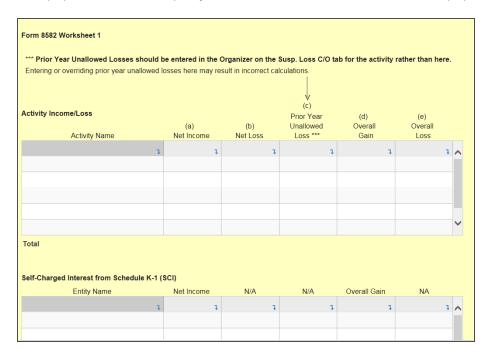


Figure 20

The workpapers show the activities and their net income, net loss, and prior year unallowed loss. You can select an amount field on the workpapers to hyperlink to the related Organizer screen.

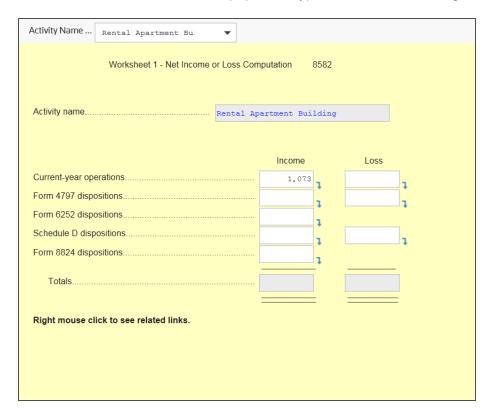


Figure 21

COPYRIGHT NOTICE

© 2019-2020 Thomson Reuters/Tax & Accounting. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. Thomson Reuters and the Kinesis logo are trademarks of Thomson Reuters and its affiliated companies. More information can be found here.

Last Updated: February 14, 2020