

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

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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.

The screenshot shows the 'Return and Print Options' screen. The left sidebar has 'General Information' expanded, with 'Return and Print Options' selected. The main area shows the 'Tax Form Options (cont'd)' tab. Under 'Next Years Organizer Print Options', the 'FORM 8582 - PASSIVE ACTIVITY LOSS LIMITATIONS' section is highlighted with a red box. It contains checkboxes for 'Suppress Form 8582 including worksheets', 'Suppress PTP Worksheets', 'Force Form 8582, page 1', 'Force Form 8582 Worksheets, pages 2-3', and 'Force Form 8582 AMT, pages 1-3'.

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.

The screenshot shows the 'Passive Loss Processing' screen. The left sidebar has 'Income' expanded, with 'Passive Loss Processing' selected. The main area shows the 'PRINT OPTIONS' section, which is highlighted with a red box. It contains checkboxes for 'Suppress Form 8582 including worksheets', 'Suppress PTP Worksheets', 'Force Form 8582, page 1', 'Force Form 8582 Worksheets, pages 2 and 3', and 'Force Form 8582 AMT, pages 1-3'.

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.

The screenshot shows the 'Activity Information' tab of the 1040 Passive Losses Data Entry form. The left sidebar contains a tree view of the form's sections, with 'Income' expanded and 'Rental Apartment Building' selected. The main area displays the 'ACTIVITY INFORMATION' section, which includes fields for 'Rental name (Mandatory)' (set to 'Rental Apartment Building') and 'Property type (Mandatory)' (set to 'Multi-Family Residence'). Below these are sections for 'DID YOU MAKE PAYMENTS THAT WOULD REQUIRE YOU TO FILE FORM(S) 1099' and 'IF "YES," DID YOU OR WILL YOU FILE ALL REQUIRED FORMS 1099', both with 'Blank' selected. The 'TRADE OR BUSINESS TO WHICH NET INVESTMENT INCOME TAX APPLIES' section also has 'Blank' selected.

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.

Farm Name ... Overland Farm

Sch F Information | Income and Expenses | Income Accrual | State Information | Pass Loss Carryovers | Pa

ACCOUNTING METHOD

☒ Cash ☐ Accrual ☐ Blank

AT-RISK INFORMATION

☒ All at risk ☐ Some not at risk ☐ Leave blank

ACTIVITY TYPE

Material participation
Other passive
Rental real estate - Does not actively participate
Rental real estate - Active participation
Rental real estate - Real estate professional
Nonpassive tax shelter
Passive non-tax shelter

SUBSIDY INFORMATION

☐ Received a Subsidy ☐ Did not receive a subsidy ☒ Leave blank

☐ IRC § 1.263(a)-3(h) Safe Harbor Election for Small Taxpayer [Mandatory 'Description of the building property'](#)

☐ IRC § 1.263(a)-3(n) Election to Capitalize Repair and Maintenance Costs

PAYMENTS REQUIRING FILING 1099

☐ Require filing 1099
☐ Did not require 1099
☒ Leave blank

IF REQUIRED, WAS FORM 1099 FILED?

☐ 1099 was filed
☐ 1099 was not filed
☒ Leave blank

MISCELLANEOUS INFORMATION

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.

Property Name ... Rental Apartment Bu

Activity Information | Income and Expense | **Pass Loss Carryovers** | Pass Cred Carryovers | Rent/Roy - A

ACTIVITY INFORMATION

Activity type.....

- Material participation
- Other passive
- Portfolio
- Rental real estate - Does not actively participate**
- Rental real estate - Active participation
- Rental real estate - Real estate professional

ROYALTY TYPE

☐ Oil and gas depletion

☐ Other than oil and gas depletion

☐ Royalty with no depletion

☒ Not Applicable

RENTAL REAL ESTATE

Fair rental days.....

Personal use days.....

☐ Real estate with personal use - use total number of days in current year for the denominator to allocate mortgage interest and real estate taxes

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

The screenshot shows the '1040 Passive Losses' software interface. On the left is an 'Organizer' pane with a tree view. Under 'Schedule K-1', 'Overland Rental Partnership' is selected, and 'Schedule K-1 Information' is highlighted. The main window has a 'Schedule K-1 Name' dropdown set to 'Overland Rental Partn.'. Below this are tabs: 'Activity Information' (selected), 'Income', 'Deductions', 'SE/Credits/Foreign Tax Cr', and 'AMT/Nondeductible/Other Info'. Under 'Activity Information', there are sub-tabs: 'Pass Loss Carryovers' (selected), 'Pass Cred Carryovers', 'State Information', and 'Schedule K-1 Import'. The main content area is titled 'PASSIVE ACTIVITY LOSS CARRYOVER TO CURRENT YEAR'. It contains a 'Notes' section and a table for carryover amounts.

	Operating	Schedule D Short-term	Schedule D Long-term *	Form 4797 § 1231	Form 4797 Ordinary	Schedule D Collectible (28%)
Federal regular tax...						
Federal alt. min. tax...						
California Regular tax...						
California alt. min. tax...						
California nonresident Regular tax...						
California nonresident alt. min. tax...						
Kentucky Regular tax (T)...						
Kentucky Regular tax (S)...						

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.

The screenshot shows the '1040 Passive Losses' software interface, similar to Figure 10, but with the 'Activity Fully Disposed' checkbox checked. The 'Organizer' pane on the left shows 'Overland Rental Partnership' selected. The main window has the 'Activity Information' tab selected, and the 'Pass Loss Carryovers' sub-tab is active. The 'QuickTrack' section shows 'Activity Fully Disposed' and 'Activity Type'. Below this, the 'Tax shelter registration number' and 'Tax shelter identification number' fields are visible. A checkbox labeled 'Fully disposed of during the current year' is checked. Below this is a section titled 'TRADE OR BUSINESS TO WHICH NET INVESTMENT INCOME TAX APPLIES' with radio buttons for 'Yes', 'No', and 'Blank' (selected). At the bottom, there is a section for 'ADDRESS AND FISCAL YEAR DATES FOR FORM 8805 AND STATE PROCESSING' with fields for 'Address', 'City', 'State' (dropdown), and 'ZIP'.

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.

The screenshot displays the 1040 Passive Losses software interface. On the left, the 'Organizer' pane shows a tree structure under 'Summary' > 'Overland Rental Partnership' > 'Schedule K-1 Information' > 'General Business Expense' > 'Gains and Losses' > 'Sales of Business Property'. The 'Add new Description of Property' option is highlighted with a red box. A dialog box titled 'Add new Description of Property' is open, showing a text field with 'Equipment' and 'SAVE' and 'CANCEL' buttons. The background interface includes a top menu bar with 'Compute', 'Print', 'Tools', and 'View'. The main area shows 'Schedule K-1 Information' with fields for 'Tax shelter registration number', 'Tax shelter identification number', and 'Fully disposed of during the current year'. There is also a section for 'TRADE OR BUSINESS TO WHICH NET INVESTMENT INCOME TAX APPLIES' with radio buttons for 'Yes', 'No', and 'Blank' (selected). At the bottom, there is a section for 'ADDRESS AND FISCAL YEAR DATES FOR FORM 8805 AND STATE PROCESSING' with fields for 'Address', 'Address (cont'd)', 'City', and 'State'.

Figure 12

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

Description of Property ...	Equipment ▼
HELP	
Bulk Sale Instructions	§1250 Code List
PROPERTY INFORMATION	
Description of property (Mandatory)	
Equipment	
Type of sale (Mandatory)	
(None selected) ▼	
For bulk sales, select type of sale on only one property.	
<input type="checkbox"/> Investment property	
DATES	
ACQUIRED	
<input type="radio"/> Inherited*	
<input type="radio"/> From Schedule K-1 F1120S* **	
<input type="radio"/> Various*	
<input checked="" type="radio"/> Actual date (mm/dd/yyyy)	
MM/DD/YYYY	
* For these options, no text will appear on the printed form.	
** Applies to Form 4797 line 2 only.	
Date acquired (Print only).....	

Figure 13

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

Description of Property ...
Equipment

HELP
[Bulk Sale Instructions](#) [§1250 Code List](#)

☐ Investment property

DATES

ACQUIRED
☐ Inherited*
☐ From Schedule K-1 F1120S* **
☐ Various*
☒ Actual date (mm/dd/yyyy)

MM/DD/YYYY

* For these options, no text will appear on the printed form.
** Applies to Form 4797 line 2 only.

Date acquired (Print only).....

SOLD
☐ Various*
☒ Actual date (mm/dd/yyyy)

MM/DD/YYYY

* For this option, no text will appear on the printed form.

Date sold (Print only).....

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.

Description of Property ... Equipment

HELP

[Bulk Sale Instructions](#) [§1250 Code List](#)

* For this option, no text will appear on the printed form.

Date sold (Print only).....

COMPUTATION OF GAIN(LOSS)

		California (If different)	Non-Adopting States (If different)
Gross sales price.....			
Cost or other basis.....	8,500	8,800	
Accumulated depreciation.....			
Section 179 expense.....			
Expense of sale.....			
AMT accumulated depreciation.....			
30/50/100% special depreciation allowance.....			
Unique identifier used for bulk retirements.....			

(Enter on only ONE asset in sales area and same number on all assets in depreciation area)

STATE INFORMATION

State Taxation: (None selected)

Method of Disposition (New York only):

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.

The screenshot displays the 'Schedule K-1' section of the software. On the left, a sidebar lists various tax forms, with 'Schedule K-1' expanded. The main area shows the 'Activity Information' tab, which includes a dropdown for 'Schedule K-1 Name' (Overland Rental Partn) and a 'QuickTrack' section with buttons for 'Activity Fully Disposed' and 'Activity Type'. The 'Activity Type' dropdown is open, showing a list of activity types. The 'Rental real estate - Active participation' option is highlighted. Below this, the 'ELECTIONS' section contains three checkboxes: 'IRC § 1.263(a)-1(f) De Minimis Safe Harbor Election', 'IRC § 1.263(a)-3(h) Safe Harbor Election for Small Taxpayer', and 'IRC § 1.263(a)-3(n) Election to Capitalize Repair and Maintenance Costs'.

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.

Schedule K-1 Name... Overland Rental Patn					
Activity Information	Income	Deductions	SE/Credits/Foreign Tax Cr	AMT/Nondeductible/Other Info	
Pass Loss Carryovers	Pass Cred Carryovers	State Information	Schedule K-1 Import		
Kentucky					
Regular tax (T).....					
Regular tax (S).....					
Regular tax (J).....					
Massachusetts					
Regular tax.....					
New York nonresident					
Regular tax.....					
Wisconsin					
Regular tax.....					
South Carolina					
Regular tax.....					
<input type="checkbox"/> Taxpayer actively participated in the rental real estate activity in both the year the loss arose and the current tax year. Report carryover on Worksheet 1					
<input type="checkbox"/> Taxpayer actively participated in the rental real estate activity in both the year the Commercial Revitalization Deduction arose and the current tax year. Report Carryover on Worksheet 1					

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 prior-year disallowed losses, no matter which activity produced the income or the prior-year disallowed loss.

Organizer | **Tax Forms** | Collapse All

- ▶ Lump Sum Distributions
- ▶ Rent and Royalty
- ▶ Depletion (Sch. E)
- ▶ Schedule K-1
- ▶ Schedule K-1 State Fields
- ▶ Schedule K-1 State Grid
- ▶ Schedule K-1-PTP
- ▶ Schedule K-1 Transfer
- ▶ REMIC
- ▶ Farm Income
- ▶ Miscellaneous Income
- ▶ Kid-tax Income
- ▶ **Passive Loss Processing**
- ▶ Gains and Losses
- ▶ Adjustments to Income
- ▶ Itemized Deductions

PRINT OPTIONS

- ☒ Suppress Form 8582 including worksheets
- ☐ Suppress PTP Worksheets
- ☐ Force Form 8582, page 1
- ☐ Force Form 8582 Worksheets, pages 2 and 3
- ☐ Force Form 8582 AMT, pages 1-3

ELECTION TO AGGREGATE ALL RENTAL REAL ESTATE INTERESTS

Note: Only activities coded as "Rental real estate" and "Real Estate Professional" will be aggregated.

☐ Treat all rental real estate interests as one activity

Aggregate activity name.....

"PAL" PRINT AND E-FILE ONLY.

Note: Selections made here do NOT change computations in the return.

Show "PAL" on:

- ☐ Form 4684 line 31
- ☐ Form 4684 line 32

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.

Organizer | **Tax Forms** | Collapse All

- ▶ 8275-R - Regulation Disclosure
- ▶ 8283 - Noncash Charitable Contributions
- ▶ 8379 - Injured Spouse Allocation
- ▶ 8396 - Home Mortgage Credit
- ▶ **8582 - Passive Activity Loss Limitation**
- ▶ 8582 AMT - Passive Activity Loss Limit
- ▶ 8582-CR - Passive Activity Credit Limit
- ▶ 8586 - Low Income Housing Credit
- ▶ 8594 - Asset Acquisition - Sec 1060
- ▶ 8606 - Nondeductible IRAs
- ▶ 8611 - Recap Low Inc Housing Credit
- ▶ 8615 - Tax for Children Under Age 18
- ▶ 8621 - Return by Shareholder of PFIC/QE
- ▶ 8689 - US Virgin Islands Allocation
- ▶ 8697 - Look Back Method Long Term Contr
- ▶ 8801 - Minimum Tax Credit
- ▶ 8806 - Foreign Partners Information

Form 8582 | **Passive Activity Loss Limitations**

Department of the Treasury | Internal Revenue Service (990)

2018 | **20** | **20**

Part I 2018 Passive Activity Loss

Caution: Complete Worksheets 1, 2, and 3 before completing Part I.

Rental Real Estate Activities With Active Participation (For the definition of active participation, see Special Allowance for Rental Real Estate Activities in the instructions.)

1a	Activities with net income (enter the amount from Worksheet 1, column (a))	1a	()	Worksheet 1
b	Activities with net loss (enter the amount from Worksheet 1, column (b))	1b	()	
c	Prior years' unallowed losses (enter the amount from Worksheet 1, column (c))	1c	()	
d	Combine lines 1a, 1b, and 1c	1d	()	

Commercial Revitalization Deductions From Rental Real Estate Activities

2a	Commercial revitalization deductions from Worksheet 2, column (a)	2a	()	Worksheet 2
b	Prior year unallowed commercial revitalization deductions from Worksheet 2, column (b)	2b	()	

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.

Form 8582 Worksheet 1

*** Prior Year Unallowed Losses should be entered in the Organizer on the Susp. Loss C/O tab for the activity rather than here.
 Entering or overriding prior year unallowed losses here may result in incorrect calculations.

↓
(c)

Activity Name	(a) Net Income	(b) Net Loss	(c) Prior Year Unallowed Loss ***	(d) Overall Gain	(e) Overall Loss
Total					

Self-Charged Interest from Schedule K-1 (SCI)

Entity Name	Net Income	N/A	N/A	Overall Gain	NA

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.

Activity Name ...
Rental Apartment Bu.

Worksheet 1 - Net Income or Loss Computation
8582

Activity name.....
Rental Apartment Building

	Income	Loss
Current-year operations.....	1,073	
Form 4797 dispositions.....		
Form 6252 dispositions.....		
Schedule D dispositions.....		
Form 8824 dispositions.....		
Totals.....		

Right mouse click to see related links.

Figure 21

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