

**SCHEDULE E  
(Form 1040)**

**Supplemental Income and Loss**

OMB No. 1545-0074

(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

**2021**

Department of the Treasury  
Internal Revenue Service (99)

▶ Attach to Form 1040, 1040-SR, 1040-NR, or 1041.

Attachment  
Sequence No. **13**

▶ Go to [www.irs.gov/ScheduleE](http://www.irs.gov/ScheduleE) for instructions and the latest information.

Name(s) shown on return

Your social security number

**Part I Income or Loss From Rental Real Estate and Royalties** Note: If you are in the business of renting personal property, use Schedule C. See instructions. If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.

**A** Did you make any payments in 2021 that would require you to file Form(s) 1099? See instructions . . . . .  Yes  No

**B** If "Yes," did you or will you file required Form(s) 1099? . . . . .  Yes  No

<b>1a</b>	Physical address of each property (street, city, state, ZIP code)				
<b>A</b>					
<b>B</b>					
<b>C</b>					
<b>1b</b>	Type of Property (from list below)	<b>2</b> For each rental real estate property listed above, report the number of fair rental and personal use days. Check the <b>QJV</b> box only if you meet the requirements to file as a qualified joint venture. See instructions.	<b>Fair Rental Days</b>	<b>Personal Use Days</b>	<b>QJV</b>
<b>A</b>			<b>A</b>		<input type="checkbox"/>
<b>B</b>			<b>B</b>		<input type="checkbox"/>
<b>C</b>			<b>C</b>		<input type="checkbox"/>

**Type of Property:**

- 1 Single Family Residence      3 Vacation/Short-Term Rental      5 Land      7 Self-Rental
- 2 Multi-Family Residence      4 Commercial      6 Royalties      8 Other (describe)

Income:		Properties:	A	B	C
<b>3</b>	Rents received . . . . .	<b>3</b>			
<b>4</b>	Royalties received . . . . .	<b>4</b>			
<b>Expenses:</b>					
<b>5</b>	Advertising . . . . .	<b>5</b>			
<b>6</b>	Auto and travel (see instructions) . . . . .	<b>6</b>			
<b>7</b>	Cleaning and maintenance . . . . .	<b>7</b>			
<b>8</b>	Commissions. . . . .	<b>8</b>			
<b>9</b>	Insurance . . . . .	<b>9</b>			
<b>10</b>	Legal and other professional fees . . . . .	<b>10</b>			
<b>11</b>	Management fees . . . . .	<b>11</b>			
<b>12</b>	Mortgage interest paid to banks, etc. (see instructions)	<b>12</b>			
<b>13</b>	Other interest. . . . .	<b>13</b>			
<b>14</b>	Repairs. . . . .	<b>14</b>			
<b>15</b>	Supplies . . . . .	<b>15</b>			
<b>16</b>	Taxes . . . . .	<b>16</b>			
<b>17</b>	Utilities. . . . .	<b>17</b>			
<b>18</b>	Depreciation expense or depletion . . . . .	<b>18</b>			
<b>19</b>	Other (list) ▶ _____	<b>19</b>			
<b>20</b>	Total expenses. Add lines 5 through 19 . . . . .	<b>20</b>			
<b>21</b>	Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198 . . . . .	<b>21</b>			
<b>22</b>	Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions) . . . . .	<b>22</b>	( )	( )	( )
<b>23a</b>	Total of all amounts reported on line 3 for all rental properties . . . . .		<b>23a</b>		
<b>b</b>	Total of all amounts reported on line 4 for all royalty properties . . . . .		<b>23b</b>		
<b>c</b>	Total of all amounts reported on line 12 for all properties . . . . .		<b>23c</b>		
<b>d</b>	Total of all amounts reported on line 18 for all properties . . . . .		<b>23d</b>		
<b>e</b>	Total of all amounts reported on line 20 for all properties . . . . .		<b>23e</b>		
<b>24</b>	<b>Income.</b> Add positive amounts shown on line 21. Do not include any losses . . . . .	<b>24</b>			
<b>25</b>	<b>Losses.</b> Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here . . . . .	<b>25</b>	( )		
<b>26</b>	<b>Total rental real estate and royalty income or (loss).</b> Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Schedule 1 (Form 1040), line 5. Otherwise, include this amount in the total on line 41 on page 2 . . . . .	<b>26</b>			

Name(s) shown on return. Do not enter name and social security number if shown on other side.

Your social security number

Caution: The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.

Part II Income or Loss From Partnerships and S Corporations - Note: If you report a loss, receive a distribution, dispose of stock, or receive a loan repayment from an S corporation, you must check the box in column (e) on line 28 and attach the required basis computation. If you report a loss from an at-risk activity for which any amount is not at risk, you must check the box in column (f) on line 28 and attach Form 6198. See instructions.

27 Are you reporting any loss not allowed in a prior year due to the at-risk or basis limitations, a prior year unallowed loss from a passive activity (if that loss was not reported on Form 8582), or unreimbursed partnership expenses? If you answered "Yes," see instructions before completing this section. Yes No

Table with 6 columns: (a) Name, (b) Enter P for partnership; S for S corporation, (c) Check if foreign partnership, (d) Employer identification number, (e) Check if basis computation is required, (f) Check if any amount is not at risk. Rows A, B, C, D.

Table with 5 columns: (g) Passive loss allowed, (h) Passive income from Schedule K-1, (i) Nonpassive loss allowed, (j) Section 179 expense deduction from Form 4562, (k) Nonpassive income from Schedule K-1. Rows A, B, C, D, 29a Totals, 29b Totals, 30, 31, 32.

Part III Income or Loss From Estates and Trusts

Table with 2 columns: (a) Name, (b) Employer identification number. Rows A, B.

Table with 4 columns: (c) Passive deduction or loss allowed, (d) Passive income from Schedule K-1, (e) Deduction or loss from Schedule K-1, (f) Other income from Schedule K-1. Rows A, B, 34a Totals, 34b Totals, 35, 36, 37.

Part IV Income or Loss From Real Estate Mortgage Investment Conduits (REMICs) - Residual Holder

Table with 5 columns: (a) Name, (b) Employer identification number, (c) Excess inclusion from Schedules Q, line 2c, (d) Taxable income (net loss) from Schedules Q, line 1b, (e) Income from Schedules Q, line 3b. Rows 38, 39.

Part V Summary

Table with 2 columns: Description, Amount. Rows 40, 41, 42, 43.



# 2021 Instructions for Schedule E

## Supplemental Income and Loss

Use Schedule E (Form 1040) to report income or loss from rental real estate, royalties, partnerships, S corporations, estates, trusts, and residual interests in REMICs.

You can attach your own schedule(s) to report income or loss from any of these sources. Use the same format as on Schedule E.

Enter separately on Schedule E the total income and the total loss for each part. Enclose loss figures in (parentheses).

Section references are to the Internal Revenue Code unless otherwise noted.

### Future Developments

For the latest information about developments related to Schedule E (Form 1040) and its instructions, such as legislation enacted after they were published, go to [IRS.gov/ScheduleE](https://www.irs.gov/ScheduleE).

### What's New

**Standard mileage rate.** The standard mileage rate for miles driven in connection with your rental activities decreased to 56 cents a mile.

**Figuring a shareholder's stock and debt basis.** See the new Form 7203 and its separate instructions, which have been developed to replace the 3-part Worksheet for Figuring a Shareholder's Stock and Debt Basis and its related instructions formerly found in the Shareholder's Instructions for Schedule K-1 (Form 1120-S).

**Credits for self-employed persons.** Refundable credits are available to certain self-employed persons impacted by the coronavirus. See the Instructions for Form 7202, Credit for Sick Leave and Family Leave for Certain Self-Employed Individuals, for more information.

**Business meal expense.** For a limited time, business meals are 100% deductible under certain conditions. See [Line 6](#), later, for more information.

**Excess business loss limitation.** If you report a loss on line 26, 32, 37, or 39 of your Schedule E (Form 1040), you may be subject to a business loss limitation. The disallowed loss resulting from the limitation will not be reflected on line 26, 32, 37, or 39 of your Sched-

ule E. Instead, use Form 461 to determine the amount of your excess business loss, which will be included as income on Schedule 1 (Form 1040), line 8o. Any disallowed loss resulting from this limitation will be treated as a net operating loss that must be carried forward and deducted in a subsequent year.

See Form 461 and its instructions for details on the excess business loss limitation.

**Paycheck Protection Program (PPP) Safe Harbor.** Rev. Proc. 2021-20 has allowed for a safe harbor for certain taxpayers who did not deduct certain otherwise deductible expenses paid or incurred during the tax year(s) ending after March 26, 2020, and on or before December 31, 2020, that resulted in, or were expected to result in, forgiveness of the loan. To find more information, including requirements, of this safe harbor, see [Rev. Proc. 2021-20](#).

**The COVID-19 related credit for qualified sick and family leave wages.** The Families First Coronavirus Response Act (FFCRA) was amended by recent legislation. The FFCRA requirement that employers provide paid sick and family leave for reasons related to COVID-19 (the employer mandate) expired on December 31, 2020; however, the COVID-related Tax Relief Act of 2020 extends the periods for which employers providing leave that otherwise meets the requirements of the FFCRA may continue to claim tax credits for qualified sick and family leave wages paid for leave taken before April 1, 2021.

The American Rescue Plan Act of 2021 (the ARP) adds new sections 3131 and 3132 to the Internal Revenue Code to provide credits for qualified sick and family leave wages similar to the credits

that were previously enacted under the FFCRA and amended and extended by the COVID-related Tax Relief Act of 2020. The credits under sections 3131 and 3132 are available for qualified leave wages paid for leave taken after March 31, 2021, and before October 1, 2021.

### Reminder

**Self-employed tax payments deferred from 2020.** If you elected to defer self-employed tax payments from 2020, see [How self-employed individuals and household employers repay deferred Social Security tax](#).

### General Instructions

#### Other Schedules and Forms You May Have To File

- Schedule A (Form 1040) to deduct interest, taxes, and casualty losses not related to your business.
- Form 461 to report an excess business loss.
- Form 941 to report the employer share and employee share of social security tax and Medicare tax, withheld federal income tax, and, if applicable, withheld Additional Medicare Tax.
- Form 944 for smallest employers (those whose annual liability for social security, Medicare, and withheld federal income taxes are \$1,000 or less) to file and pay these taxes only once a year instead of every quarter.
- Form 3520 to report certain transactions with foreign trusts and receipt of certain large gifts or bequests from certain foreign persons.

- Form 4562 to claim depreciation and amortization (including information on listed property) on assets placed in service in 2021, to claim amortization that began in 2021, to make an election under section 179 to expense certain property, or to report information on listed property.

- Form 4684 to report a casualty or theft gain or loss involving property used in your trade or business or income-producing property.

- Form 4797 to report sales, exchanges, and involuntary conversions (not from a casualty or theft) of trade or business property.

- Form 6198 to apply a limitation to your loss from an at-risk activity.

- Form 7203 to figure potential limitations of your share of the S corporation's deductions, credits, and other items that can be deducted on your return.

- Form 8082 to notify the IRS of any inconsistent tax treatment for an item on your return.

- Form 8582 to apply a limitation to your loss from passive activities.

- Form 8824 to report like-kind exchanges.

- Form 8826 to claim a credit for expenditures to improve access to your business for individuals with disabilities.

- Form 8873 to figure your extraterritorial income exclusion.

- Form 8910 to claim a credit for placing a new alternative motor vehicle in service for business use.

- Form 8960 to pay Net Investment Income Tax on certain income from your rental and other passive activities.

- Form 8990 to determine whether your business interest deduction is limited.

- Form 8995 or 8995-A to claim a deduction for qualified business income.

**Single-member limited liability company (LLC).** In most cases, a single-member domestic LLC is not treated as a separate entity for federal income tax purposes. If you are the sole member of a domestic LLC, file Schedule E (or Schedule C or F, if applicable). However, you can elect to treat a domestic LLC as a corporation. See Form 8832 for details on the election and the tax treatment of a foreign LLC.

**Information returns.** You may have to file information returns for wages paid

to employees, certain payments of fees and other nonemployee compensation, interest, rents, royalties, real estate transactions, annuities, and pensions. For details, see [Line A](#), later, and the 2021 General Instructions for Certain Information Returns.

If you received cash of more than \$10,000 in one or more related transactions in your trade or business, you may have to file Form 8300. For details, see Pub. 1544.

## Qualified Joint Venture

If you and your spouse each materially participate (see *Material participation* in the Instructions for Schedule C) as the only members of a jointly owned and operated rental real estate business and you file a joint return for the tax year, you can elect to be treated as a qualified joint venture instead of a partnership. This election, in most cases, will not increase the total tax owed on the joint return. By making the election, you will not be required to file Form 1065 for any year the election is in effect and will instead report the income and deductions directly on your joint return. If you and your spouse filed Form 1065 for the year prior to the election, the partnership terminates at the end of the tax year immediately preceding the year the election takes effect.

**Note.** Mere joint ownership of property that is not a trade or business does not qualify for the election.



*Only businesses that are owned and operated by spouses as co-owners (and not in the name of a state law entity) qualify for the election. Thus, a business owned and operated by spouses through an LLC does not qualify for the election of a qualified joint venture.*

**Making the election.** To make this election for your rental real estate business, check the “QJV” box on line 2 for each property that is part of the qualified joint venture. You must divide all items of income, gain, loss, deduction, and credit attributable to the rental real estate business between you and your spouse in accordance with your respective interests in the venture. Although you and your spouse will not each file your own Schedule E as part of the qualified joint venture, each of you must report your

interest as separate properties on line 1 of Schedule E. On lines 3 through 22 for each separate property interest, you must enter your share of the applicable income, deduction, or loss.

If you have more than three rental real estate or royalty properties, complete and attach as many Schedules E as you need to list them. But fill in lines 23a through 26 on only one Schedule E. The figures on lines 23a through 26 on that Schedule E should be the combined totals for all properties reported on your Schedules E.

Once made, the election can be revoked only with the permission of the IRS. However, the election technically remains in effect only for as long as the spouses filing as a qualified joint venture continue to meet the requirements to be treated as a qualified joint venture. If the spouses fail to meet the qualified joint venture requirements for a year, a new election will be necessary for any future year in which the spouses meet the requirements to be treated as a qualified joint venture.

Rental real estate income is generally not included in net earnings from self-employment subject to self-employment tax and is generally subject to passive loss limitation rules. Electing qualified joint venture status does not alter the application of the self-employment tax or the passive loss limitation rules.

For more information on qualified joint ventures, go to [IRS.gov/QJV](https://www.irs.gov/QJV).

## Reportable Transaction Disclosure Statement

Use Form 8886 to disclose information for each reportable transaction in which you participated. Form 8886 must be filed for each tax year that your federal income tax liability is affected by your participation in the transaction. You may have to pay a penalty if you are required to file Form 8886 but do not do so. You may also have to pay interest and penalties on any reportable transaction understatements. The following are reportable transactions.

- Any listed transaction that is the same as or substantially similar to tax avoidance transactions identified by the IRS.

- Any transaction offered to you or a related party under conditions of confi-

dentiality for which you paid an advisor a fee of at least \$50,000.

- Certain transactions for which you or a related party have contractual protection against disallowance of the tax benefits.

- Certain transactions resulting in a loss of at least \$2 million in any single tax year or \$4 million in any combination of tax years (at least \$50,000 for a single tax year if the loss arose from a foreign currency transaction defined in section 988(c)(1), whether or not the loss flows through from an S corporation or partnership).

- Certain transactions of interest entered into that are the same or substantially similar to transactions that the IRS has identified by notice, regulation, or other form of published guidance as transactions of interest.

See the Instructions for Form 8886 for more details.

## Limitation on Losses

If you report a loss from rental real estate or royalties in Part I, a loss from a partnership or S corporation in Part II, or a loss from an estate or trust in Part III, your loss may be reduced or not allowed this year. You must apply the following rules to your loss.

- Basis rules apply to losses from a partnership or S corporation. See [Basis rules for partnerships](#) and [Basis rules for S corporations](#), later, in Part II.

- At-risk rules apply to losses from rental real estate or royalties. They also apply to losses from a partnership, S corporation, estate, or trust. See [At-Risk Rules](#), later, in the General Instructions. If the loss is from a partnership or S corporation, also see [At-risk rules](#), later, in Part II.

- Passive activity loss rules apply to losses from rental real estate. They also apply to losses from a partnership, S corporation, estate, or trust. See [Passive Activity Loss Rules](#), later, in the General Instructions. If the loss is from a partnership or S corporation, also see [Passive activity loss rules](#), later, in Part II.

- Excess business loss rules apply to losses from all noncorporate trades or businesses. This loss limitation is figured using Form 461 after you complete your Schedule E. Any limitation to your loss resulting from these rules will not be reflected on your

Schedule E. Instead, it will be included as income on Schedule 1 (Form 1040), line 8o, and treated as a net operating loss that must be carried forward and deducted in a subsequent year. These rules also apply to losses from a partnership or S corporation.

## At-Risk Rules

In most cases, you must complete Form 6198 to figure your loss if you have:

- A loss from an activity carried on as a trade or business or for the production of income, and
- Amounts in the activity for which you are not at risk.

The at-risk rules in most cases limit the amount of loss (including loss on the disposition of assets) you can claim to the amount you could actually lose in the activity. However, the at-risk rules do not apply to losses from an activity of holding real property placed in service before 1987. They also do not apply to losses from your interest acquired before 1987 in a pass-through entity engaged in such activity. The activity of holding mineral property does not qualify for this exception.

In most cases, you are not at risk for amounts such as the following.

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity that are not secured by your own property (other than property used in the activity). However, there is an exception for certain nonrecourse financing borrowed by you in connection with the activity of holding real property (other than mineral property). See [Qualified nonrecourse financing](#), later.

- Cash, property, or borrowed amounts used in the activity (or contributed to the activity, or used to acquire your interest in the activity) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).

- Amounts borrowed for use in the activity from a person who has an interest in the activity (other than as a creditor) or who is related under section 465(b)(3)(C) to a person (other than you) having such an interest.

**Qualified nonrecourse financing.** Qualified nonrecourse financing is treated as an amount at risk if it is secured

by real property used in an activity of holding real property subject to the at-risk rules. Qualified nonrecourse financing is financing for which no one is personally liable for repayment and is:

- Borrowed by you in connection with the activity of holding real property (other than mineral property);

- Not convertible from a debt obligation to an ownership interest; and

- Loaned or guaranteed by any federal, state, or local government, or borrowed by you from a qualified person.

**Qualified person.** A qualified person is a person who actively and regularly engages in the business of lending money, such as a bank or savings and loan association. A qualified person cannot be:

- Related to you (unless the nonrecourse financing obtained is commercially reasonable and on substantially the same terms as loans involving unrelated persons),

- The seller of the property (or a person related to the seller), or

- A person who receives a fee due to your investment in real property (or a person related to that person).

**More information.** For more details about the at-risk rules, see the Instructions for Form 6198 and Pub. 925.

## Passive Activity Loss Rules

The passive activity loss rules may limit the amount of losses you can deduct. These rules apply to losses in Parts I, II, and III, and line 40 of Schedule E.

Losses from passive activities may be subject first to the at-risk rules. Losses deductible under the at-risk rules are then subject to the passive activity loss rules.

You can deduct losses from passive activities in most cases only to the extent of income from passive activities. An [exception for certain rental real estate activities](#) (explained later) may apply.

## Passive Activity

A passive activity is any business activity in which you did not materially participate and any rental activity, except as explained later. If you are a limited partner, in most cases, you are not treated as having materially participated in the partnership's activities for the year.

The rental of real or personal property is a rental activity under the passive activity loss rules in most cases, but exceptions apply. If your rental of property is not treated as a rental activity, you must determine whether it is a trade or business activity and, if so, whether you materially participated in the activity for the tax year.

See the Instructions for Form 8582 to determine whether you materially participated in the activity and for the definition of “rental activity.”

See Pub. 925 for special rules that apply to rentals of:

- Substantially nondepreciable property,
- Property incidental to development activities, and
- Property related to activities in which you materially participate.

## Activities That Are Not Passive Activities

### Activities of real estate professionals.

If you were a real estate professional for 2021, any rental real estate activity in which you materially participated is not a passive activity. You were a real estate professional for the year only if you met both of the following conditions.

- More than half of the personal services you performed in trades or businesses during the year were performed in real property trades or businesses in which you materially participated.
- You performed more than 750 hours of services during the year in real property trades or businesses in which you materially participated.

If you are married filing jointly, either you or your spouse must meet both of the above conditions without taking into account services performed by the other spouse.

A real property trade or business is any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business. Services you performed as an employee are not treated as performed in a real property trade or business unless you owned more than 5% of the stock (or more than 5% of the capital or profits interest) in the employer.

If you qualify as a real estate professional, rental real estate activities in

which you materially participated are not passive activities. For purposes of determining whether you materially participated in your rental real estate activities, each interest in rental real estate is a separate activity unless you elect to treat all your interests in rental real estate as one activity. To make this election, attach a statement to your original tax return that declares you are a qualifying taxpayer for the year and you are making the election under section 469(c)(7)(A). The election applies for the year made and all later years in which you are a real estate professional. You can revoke the election only if your facts and circumstances materially change.



*If you did not make this election on your timely filed return, you may be eligible to make a late election to treat all your interest in rental real estate as one activity. See Rev. Proc. 2011-34, 2011-24 I.R.B. 875, available at [IRS.gov/irb/2011-24\\_IRB#RP-2011-34](https://www.irs.gov/irb/2011-24_IRB#RP-2011-34).*

If you were a real estate professional for 2021, complete Schedule E, line 43.

**Other activities.** The rental of a dwelling unit that you used as a home is not subject to the passive loss limitation rules. See [Line 2](#), later, to see if you used the dwelling unit as a home.

A working interest in an oil or gas well you held directly or through an entity that did not limit your liability is not a passive activity even if you did not materially participate.

Royalty income not derived in the ordinary course of a trade or business reported on Schedule E in most cases is not considered income from a passive activity.

For more details on passive activities, see the Instructions for Form 8582 and Pub. 925.

## Exception for Certain Rental Real Estate Activities

If you meet all of the following conditions, your rental real estate losses are not limited by the passive activity loss rules, and you do not need to complete Form 8582. If you do not meet all of these conditions, see the Instructions for Form 8582 to find out if you must complete and attach Form 8582 to figure any losses allowed.

1. Rental real estate activities are your only passive activities.

2. You do not have any prior year unallowed losses from any passive activities.

3. All of the following apply if you have an overall net loss from these activities.

a. You **actively participated** (defined later) in all of the rental real estate activities.

b. If married filing separately, you lived apart from your spouse all year.

c. Your overall net loss from these activities is \$25,000 or less (\$12,500 or less if married filing separately).

d. You have no current or prior year unallowed credits from passive activities.

e. Your **modified adjusted gross income** (defined later) is \$100,000 or less (\$50,000 or less if married filing separately).

f. You do not hold any interest in a rental real estate activity as a limited partner or as a beneficiary of an estate or a trust.

**Active participation.** You can meet the active participation requirement without regular, continuous, and substantial involvement in real estate activities. But you must have participated in making management decisions or arranging for others to provide services (such as repairs) in a significant and bona fide sense. Such management decisions include:

- Approving new tenants,
- Deciding on rental terms,
- Approving capital or repair expenditures, and
- Other similar decisions.

You are not considered to actively participate if, at any time during the tax year, your interest (including your spouse's interest) in the activity was less than 10% by value of all interests in the activity. If you are a limited partner, you are also not treated as actively participating in a partnership's rental real estate activities.

**Modified adjusted gross income.** This is your adjusted gross income from Form 1040, 1040-SR, or Form 1040-NR, line 11, without taking into account:

- Any allowable passive activity loss,
- Rental real estate losses allowed for real estate professionals (see [Activities of real estate professionals](#), earlier),
- Taxable social security or tier 1 railroad retirement benefits,
- Deductible contributions to a traditional IRA or certain other qualified retirement plans under section 219,
- The student loan interest deduction,
- The deduction for one-half of self-employment tax,
- The exclusion from income of interest from series EE and I U.S. savings bonds used to pay higher education expenses,
- Any excluded amounts under an employer's adoption assistance program, and
- The deduction allowed for foreign-derived intangible income and global intangible low-taxed income.

## Recordkeeping

You must keep records to support items reported on Schedule E in case the IRS has questions about them. If the IRS examines your tax return, you may be asked to explain the items reported. Good records will help you explain any item and arrive at the correct tax with a minimum of effort. If you do not have records, you may have to spend time getting statements and receipts from various sources. If you cannot produce the correct documents, you may have to pay additional tax and be subject to penalties.

## Specific Instructions

**Filers of Form 1041.** If you are a fiduciary filing Schedule E with Form 1041, enter the estate's or trust's employer identification number (EIN) in the space for "Your social security number."

## Part I



*Before you begin, see [Line 3](#) and [Line 4](#), later, to determine if you should report your rental real estate and royalty income on Schedule C or Form 4835, instead of Schedule E.*

**Credits for qualified sick and family leave wages and credits for employee retention.** If you claimed credits for qualified sick and family leave wages on Form 944 or Form(s) 941 for employees of your rental or royalty activities, report the nonrefundable and refundable portions of those credits as income on line 3 or line 4, as applicable. If you claimed the employee retention credit taken on Form 944 or Form(s) 941 for employees of your rental or royalty activities, reduce your deduction for wages by the nonrefundable and refundable portions of the credit. Do not reduce your deduction for social security and Medicare taxes on line 16 by either of these credit amounts.

## Line A

If you made any payments in 2021 that would require you to file any Forms 1099, check the "Yes" box. Otherwise, check the "No" box. In general, if you paid at least \$600 for services performed by someone who is not your employee (nonemployee compensation), you must file Form 1099-NEC; and, you generally must file Form 1099-MISC if you paid at least \$600 in rents, prizes, medical and health care payments, or other miscellaneous amounts that would be income to the person receiving them. See the 2021 General Instructions for Certain Information Returns if you are unsure whether you were required to file any Forms 1099. Also, see the separate instructions for each Form 1099.

## Income or Loss From Rental Real Estate and Royalties

Use Part I to report the following.

- Income and expenses from rental real estate (including personal property leased with real estate).
- Royalty income and expenses.
- For an estate or trust **only**, farm rental income and expenses based on

crops or livestock produced by the tenant. Estates and trusts **do not** use Form 4835 or Schedule F (Form 1040) for this purpose.

If you own a part interest in a rental real estate property, report only your part of the income and expenses on Schedule E.

Complete lines 1a, 1b, and 2 for each rental real estate property. For royalty property, enter code "6" on line 1b and leave lines 1a and 2 blank for that property.

If you have more than three rental real estate or royalty properties, complete and attach as many Schedules E as you need to list them. But answer lines A and B and fill in lines 23a through 26 on only one Schedule E. The figures on lines 23a through 26 on that Schedule E should be the combined totals for all properties reported on your Schedules E. If you are also using page 2 of Schedule E, use the same Schedule E on which you entered the combined totals for Part I.

**Personal property.** Do not use Schedule E to report income and expenses from the rental of personal property, such as equipment or vehicles. Instead, use Schedule C if you are in the business of renting personal property. You are in the business of renting personal property if the primary purpose for renting the property is income or profit and you are involved in the rental activity with continuity and regularity.

If your rental of personal property is not a business, see the instructions for Schedule 1 (Form 1040), lines 8k and 24b, to find out how to report the income and expenses.

**Extraterritorial income exclusion.** Except as otherwise provided in the Internal Revenue Code, gross income includes all income from whatever source derived. Gross income, however, does not include extraterritorial income that is qualifying foreign trade income under certain circumstances. Use Form 8873 to figure the extraterritorial income exclusion. Report it on Schedule E as explained in the Instructions for Form 8873.

**Chapter 11 bankruptcy cases.** If you were a debtor in a chapter 11 bankruptcy case, see *Chapter 11 Bankruptcy Cases*

under *Income* in the Instructions for Form 1040.



*Income you report on Schedule E may be qualified business income and entitle you to a deduction on Form 1040, 1040-SR, or 1040-NR. See the Instructions for Form 8995-A for more information about this deduction.*

## Line 1a

For rental real estate property only, show the street address, city or town, state, and ZIP code. If the property is located in a foreign country, enter the city, province or state, country, and postal code.

## Line 1b

Enter one of the codes listed under “Type of Property” in Part I of the form.

**Land rental.** Enter code “5” for rental of land. For details about the tax treatment of income from this type of rental property, see *Rental of Nondepreciable Property* in Pub. 925.

**Self-rental.** Enter code “7” for self-rental if you rent property to a trade or business in which you materially participated. See *Rental of Property to a Nonpassive Activity* in Pub. 925 for details about the tax treatment of income from this type of rental property.

**Other.** Enter code “8” if the property is not one of the other types listed on the form. Attach a statement to your return describing the property.

## Line 2

If you rented out a dwelling unit that you also used for personal purposes during the year, you may not be able to deduct all the expenses for the rental part. “Dwelling unit” (unit) means a house, apartment, condominium, mobile home, boat, or similar property.

For each property listed on line 1a, report the number of days in the year each property was rented at fair rental value and the number of days of personal use.

A day of personal use is any day, or part of a day, that the unit was used by:

- You for personal purposes;
- Any other person for personal purposes, if that person owns part of the

unit (unless rented to that person under a “shared equity” financing agreement);

- Anyone in your family (or in the family of someone else who owns part of the unit), unless the unit is rented at a fair rental price to that person as his or her main home;
- Anyone who pays less than a fair rental price for the unit; or
- Anyone under an agreement that lets you use some other unit.

Do not count as personal use:

- Any day you spent working substantially full time repairing and maintaining the unit, even if family members used it for recreational purposes on that day; or
- Any days you used the unit as your main home before or after renting it or offering it for rent, if you rented or tried to rent it for at least 12 consecutive months (or for a period of less than 12 consecutive months at the end of which you sold or exchanged it).

Whether or not you can deduct expenses for the unit depends on whether or not you used the unit as a home in 2021. You used the unit as a home if your personal use of the unit was more than the greater of:

- 14 days, or
- 10% of the total days it was rented to others at a fair rental price.

If you did not use the unit as a home, you can deduct all your expenses for the rental part, subject to the [at-risk rules](#) and the [passive activity loss rules](#) explained earlier.

If you did use the unit as a home and rented the unit out for fewer than 15 days in 2021, do not report the rental income and do not deduct any rental expenses. If you itemize deductions on Schedule A, you can deduct allowable interest, taxes, and casualty losses.

If you did use the unit as a home and rented the unit out for 15 or more days in 2021, you may not be able to deduct all your rental expenses. See Pub. 527 for more information.



*Regardless of whether you used the unit as a home, expenses related to days of personal use do not qualify as rental expenses. You must allocate your expenses based on the number of days of personal use to total use of the property. For example, you*

*used your property for personal use for 7 days and rented it for 63 days. In most cases, 10% (7 ÷ 70) of your expenses are not rental expenses and cannot be deducted on Schedule E.*

**QJV.** Check the box for “QJV” if you owned the property as a member of a qualified joint venture reporting income not subject to self-employment tax. See [Qualified Joint Venture](#), earlier.

## Line 3

If you received rental income from real estate (including personal property leased with real estate), report the income on line 3. Use a separate column (A, B, or C) for each rental property. Include income received for renting a room or other space.

Any other income should be included and reported on line 3, with a statement attached to your return.

If you received services or property instead of money as rent, report the fair market value of the services or property as rental income on line 3.

Generally, rental real estate activity is reported on Schedule E even if it is also a trade or business activity; however, if you provided significant services to the renter, such as maid service, report the rental activity on Schedule C, not on Schedule E. Significant services do not include the furnishing of heat and light, cleaning of public areas, trash collection, or similar services.

If you were a real estate dealer, include only the rent received from real estate (including personal property leased with this real estate) you held for the primary purpose of renting to produce income. Do not use Schedule E to report income and expenses from rentals of real estate you held for sale to customers in the ordinary course of your business as a real estate dealer. Instead, use Schedule C for those rentals.

For more details on rental income, see Pub. 527.

**Rental income from farm production or crop shares.** Report farm rental income and expenses on Form 4835 if:

- You are an individual,
- You received rental income based on crops or livestock produced by the tenant, and



- You did not materially participate in the management or operation of the farm.

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## Line 4

Report on line 4 royalties from oil, gas, or mineral properties (not including operating interests); copyrights; and patents. Use a separate column (A, B, or C) for each royalty property.

If you received \$10 or more in royalties during 2021, the payer should send you a Form 1099-MISC or similar statement by February 1, 2022, showing the amount you received. Report this amount on line 4.

If you are in business as a self-employed writer, inventor, artist, etc., report your royalty income and expenses on Schedule C, not on Schedule E.

You may be able to treat amounts received as “royalties” for the transfer of a patent or amounts received on the disposal of coal and iron ore as the sale of a capital asset. For details, see Pub. 544.

Enter on line 4 the gross amount of royalty income, even if state or local taxes were withheld from oil or gas payments you received. Include taxes withheld by the producer on line 16.

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## General Instructions for Lines 5 Through 21

Enter your rental and royalty expenses for each property in the appropriate column. You can deduct all ordinary and necessary expenses, such as taxes, interest, repairs, insurance, management fees, agents' commissions, and depreciation.

Do not deduct the value of your own labor or amounts paid for capital investments or capital improvements.

Enter your total expenses for mortgage interest (line 12), depreciation expenses and depletion (line 18), and total expenses (line 20) on lines 23c through 23e, respectively, even if you have only one property.

**Renting out part of your home.** If you rent out only part of your home or other property, deduct the part of your expenses that applies to the rented part.

**Credit or deduction for access expenditures.** You may be able to claim a tax credit for eligible expenditures paid or

incurred in 2021 to provide access to your business for individuals with disabilities. See Form 8826 for details.

You can also elect to deduct up to \$15,000 of qualified costs paid or incurred in 2021 to remove architectural or transportation barriers to individuals with disabilities and the elderly.

You cannot take both the credit and the deduction for the same expenditures.

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## Line 6

You can deduct ordinary and necessary auto and travel expenses related to your rental activities, including 50% of meal expenses incurred while traveling away from home. However, business meals are 100% deductible if the meals are food and beverages provided by a restaurant and paid or incurred after December 31, 2020, and before January 1, 2023. In most cases, you can either deduct your actual expenses or take the standard mileage rate. You must use actual expenses if you used more than four vehicles simultaneously in your rental activities (as in fleet operations). You cannot use actual expenses for a leased vehicle if you previously used the standard mileage rate for that vehicle.

You can use the standard mileage rate for 2021 only if you:

- Owned the vehicle and used the standard mileage rate for the first year you placed the vehicle in service; or
- Leased the vehicle and are using the standard mileage rate for the entire lease period (except the period, if any, before 1998).

If you take the standard mileage rate, multiply the number of miles driven in connection with your rental activities by 56 cents a mile. Include this amount and your parking fees and tolls on line 6.

 *You cannot deduct rental or lease payments, depreciation, or your actual auto expenses if you use the standard mileage rate.*

If you deduct actual auto expenses:

- Include on line 6 the rental activity portion of the cost of gasoline, oil, repairs, insurance, tires, license plates, etc.; and
- Show auto rental or lease payments on line 19 and depreciation on line 18.

If you claim any auto expenses (actual or the standard mileage rate), you must complete Part V of Form 4562 and attach Form 4562 to your tax return.

See Pub. 527 and Pub. 463 for details.

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## Line 10

Include on line 10 fees for tax advice and the preparation of tax forms related to your rental real estate or royalty properties.

Do not deduct legal fees paid or incurred to defend or protect title to property, to recover property, or to develop or improve property. Instead, you must capitalize these fees and add them to the property's basis.

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## Lines 12 and 13

In most cases, to determine the interest expense allocable to your rental activities, you must have records to show how the proceeds of each debt were used. Specific tracing rules apply for allocating debt proceeds and repayment. See Pub. 535 for details.

**Limitation on business interest.** Interest you paid as part of your rental real estate activity is not subject to the limitation on business interest unless your rental real estate activity is a trade or business. If your rental real estate activity is a trade or business, you must file Form 8990 to deduct any interest expenses of that rental real estate activity unless you meet one of the filing exceptions listed in the Instructions for Form 8990.

If the interest you paid in your rental real estate trade or business is limited, figure the limit on your business interest expenses on Form 8990 before completing lines 12 and 13. Follow the instructions under [How to report](#), later, but report the reduced interest on lines 12 and 13. The interest you can't deduct this year will carry forward to next year on Form 8990.

If your real estate activity is not a trade or business or you meet one of the filing exceptions for Form 8990, follow the instructions under [How to report](#), later, and report all of your deductible interest on lines 12 and 13.

**How to report.** If you have a mortgage on your rental property, enter on line 12

the amount of interest you paid for 2021 to banks or other financial institutions.

Do not deduct prepaid interest when you paid it. You can deduct it only in the year to which it is properly allocable. Points, including loan origination fees, charged only for the use of money must be deducted over the life of the loan.

If you paid \$600 or more in interest on a mortgage during 2021, the recipient should send you a Form 1098 or similar statement by February 1, 2022, showing the total interest received from you.

If you paid more mortgage interest than is shown on your Form 1098 or similar statement, see Pub. 535 to find out if you can deduct part or all of the additional interest. If you can, enter the entire deductible amount on line 12. Attach a statement to your return explaining the difference. In the space to the left of line 12, enter "See attached."

**Note.** If the recipient was not a financial institution or you did not receive a Form 1098 from the recipient, report your deductible mortgage interest on line 13.

If you and at least one other person (other than your spouse if you file a joint return) were liable for and paid interest on the mortgage, and the other person received Form 1098, report your share of the deductible interest on line 13. Attach a statement to your return showing the name and address of the person who received Form 1098. On the dotted line next to line 13, enter "See attached."

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## Line 14

You can deduct the amounts paid for repairs and maintenance. However, you cannot deduct the cost of improvements. Repairs and maintenance costs are those costs that keep the property in an ordinarily efficient operating condition. Examples are fixing a broken lock or painting a room.

In contrast, improvements are amounts paid to better or restore your property or adapt it to a new or different use. Examples of improvements are adding substantial insulation or replacing an entire HVAC system. Amounts paid to improve your property must generally be capitalized and depreciated (that is, they cannot be deducted in full in the

year they are paid or incurred). See [Line 18](#), later.

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## Line 17

You can deduct the cost of ordinary and necessary telephone calls related to your rental activities or royalty income (for example, calls to the renter). However, the base rate (including taxes and other charges) for local telephone service for the first telephone line into your residence is a personal expense and is not deductible.

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## Line 18

Depreciation is the annual deduction you must take to recover the cost or other basis of business or investment property having a useful life substantially beyond the tax year. Land is not depreciable.

Depreciation starts when you first use the property in your business or for the production of income. It ends when you deduct all your depreciable cost or other basis or no longer use the property in your business or for the production of income.

See the Instructions for Form 4562 to figure the amount of depreciation to enter on line 18.

You must complete and attach Form 4562 only if you are claiming:

- Depreciation on property first placed in service during 2021;
- Depreciation on listed property (defined in the Instructions for Form 4562), including a vehicle, regardless of the date it was placed in service; or
- A section 179 expense deduction or amortization of costs that began in 2021.

See Pub. 527 for more information on depreciation of residential rental property. See Pub. 946 for a more comprehensive guide to depreciation.

If you have an economic interest in mineral property, you may be able to take a deduction for depletion. Mineral property includes oil and gas wells, mines, and other natural deposits (including geothermal deposits). See Pub. 535 for details.

### Separating cost of land and buildings.

If you buy buildings and your cost includes the cost of the land on which they stand, you must divide the cost between

the land and the buildings to figure the basis for depreciation of the buildings. The part of the cost that you allocate to each asset is the ratio of the fair market value of that asset to the fair market value of the whole property at the time you buy it.

If you are not certain of the fair market values of the land and the buildings, you can divide the cost between them based on their assessed values for real estate tax purposes.

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## Line 19

Enter on line 19 any ordinary and necessary expenses not listed on lines 5 through 18.

You may be able to deduct, on line 19, part or all of the cost of modifying existing commercial buildings to make them energy efficient. For details, see section 179D, Notice 2006-52, Notice 2008-40, and Notice 2012-26. You can find Notice 2006-52 on page 1175 of Internal Revenue Bulletin 2006-26 at [Notice 2006-52](#). You can find Notice 2008-40 on page 725 of Internal Revenue Bulletin 2008-14 at [Notice 2008-40](#). You can find Notice 2012-26 on page 847 of Internal Revenue Bulletin 2012-17 at [Notice 2012-26](#).

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## Line 21

If you have amounts for which you are not at risk, use Form 6198 to determine the amount of your deductible loss. Enter that amount in the appropriate column of Schedule E, line 21. In the space to the left of line 21, enter "Form 6198." Attach Form 6198 to your return. For details on the at-risk rules, see [At-Risk Rules](#), earlier.

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## Line 22

Do not complete line 22 if the amount on line 21 is from royalty properties.

If you have a rental real estate loss from a [passive activity](#) (defined earlier), the amount of loss you can deduct may be limited by the passive activity loss rules. You may need to complete Form 8582 to figure the amount of loss, if any, to enter on line 22. See the Instructions for Form 8582 to determine if your loss is limited.

If your rental real estate loss is not from a passive activity or you meet the

[exception for certain rental real estate activities](#) (explained earlier), you do not have to complete Form 8582. Enter the (loss) from line 21 on line 22.

If you have an unallowed rental real estate loss from a prior year that after completing Form 8582 you can include this year, include that loss on line 22.

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## Parts II and III

If you need more space in Part II or III to list your income or losses, attach a continuation sheet using the same format as shown in Part II or III. However, be sure to complete the “Totals” columns for lines 29a and 29b, or lines 34a and 34b, as appropriate. If you also completed Part I on more than one Schedule E, use the same Schedule E on which you entered the combined totals in Part I.

**Tax preference items.** If you are a partner, a shareholder in an S corporation, or a beneficiary of an estate or trust, you must take into account your share of preferences and adjustments from these entities for the alternative minimum tax on Form 6251 or Schedule I (Form 1041).

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## Part II

### Income or Loss From Partnerships and S Corporations

If you are a member of a partnership or joint venture or a shareholder in an S corporation, use Part II to report your share of the partnership or S corporation income (even if not received) or loss.



*If you elected to be taxed as a qualified joint venture instead of a partnership, follow the reporting rules under [Qualified Joint Venture](#), earlier.*

You should receive a Schedule K-1 from the partnership or S corporation. You should also receive a copy of the Partner's or Shareholder's Instructions for Schedule K-1. Your copy of Schedule K-1 and its instructions will tell you where on your return to report your share of the items. If you did not receive these instructions with your Sched-

ule K-1, see your tax return instructions for how to get tax forms, instructions, and publications. Do not attach Schedules K-1 to your return. Keep them for your records.

If you are treating items on your tax return differently from the way the partnership or S corporation reported them on its return, you may have to file Form 8082.

### Special Rules That Limit Losses

If you report a loss from a partnership or S corporation, your loss may be reduced or not allowed this year. Apply the basis rules, at-risk rules, and passive activity loss rules to your loss on Schedule E.

If your loss is also subject to the excess business loss rules, you figure that limitation separately on Form 461. Any reduction to your loss due to the excess business loss rules will not be reflected on your Schedule E. See the Instructions for Form 461 for more information.

**Basis rules for partnerships.** Generally, you may not claim your share of a partnership loss (including a capital loss) to the extent that it is greater than the adjusted basis of your partnership interest at the end of the partnership's tax year. Any losses and deductions not allowed this year because of the basis limit can be carried forward indefinitely and deducted in a later year subject to the basis limit for that year. To figure the basis of your interest in a partnership, you can use the Worksheet for Adjusting the Basis of a Partner's Interest in the Partnership in the Partner's Instructions for Schedule K-1 (Form 1065). For more details on the basis rules for partnerships, see Pub. 541.

If you had a loss from a partnership that was not allowed last year because of the basis rules, but all or part is allowed this year, see [Line 27](#), later, for how to report it.

After applying the basis rules, the loss you report on Schedule E may be further reduced by the at-risk rules and passive activity loss rules.

**Basis rules for S corporations.** Generally, the deduction for your share of aggregate losses and deductions reported on Schedule K-1 (Form 1120-S) is limited to the basis of your stock (determined with regard to distributions received during the tax year) and loans

from you to the corporation. The basis of your stock is generally figured at the end of the corporation's tax year. Any losses and deductions not allowed this year because of the basis limit can be carried forward indefinitely and deducted in a later year subject to the basis limit for that year. To figure your aggregated stock basis, you can generally use the Form 7203. For more details on the basis rules for S corporations, see the Instructions for Form 7203.

If you are claiming a deduction for your share of an aggregate loss (or you receive a distribution, dispose of stock, or receive a loan repayment from an S corporation), check the box on the appropriate line in Part II, column (e), and attach Form 7203 to your return.

If you had a loss from an S corporation that was not allowed last year because of the basis rules, but all or part is allowed this year, see [Line 27](#), later, for how to report it.

After applying the basis rules, the loss you report on Schedule E may be further reduced by the at-risk rules and passive activity loss rules.

**At-risk rules.** If you have (a) a loss or other deduction from any activity carried on as a trade or business or for the production of income by the partnership or S corporation, and (b) amounts in the activity for which you are not at risk, your loss may be limited. For more information, see [At-Risk Rules](#), earlier.

If you are subject to the at-risk rules for any activity, check the box on the appropriate line in Part II, column (f), of Schedule E, and use Form 6198 to figure the amount of any deductible loss. If the activity is nonpassive, enter any deductible loss from Form 6198 on the appropriate line in Part II, column (i), of Schedule E.

If you had a loss from the partnership or S corporation that was not allowed last year because of the at-risk rules, but all or part is allowed this year, see [Line 27](#), later, for how to report it.

After applying the at-risk rules, the loss you report on Schedule E may be further reduced by the passive activity loss rules.

**Passive activity loss rules.** For more information about passive activity losses, see [Passive Activity Loss Rules](#), earlier.

If you have a passive activity loss, in most cases you need to complete Form 8582 to figure the amount of the loss to enter in Part II, column (g), for that activity. But if you are a general partner or an S corporation shareholder reporting your share of a partnership or an S corporation loss from a rental real estate activity and you meet all of the conditions listed earlier under [Exception for Certain Rental Real Estate Activities](#), you do not have to complete Form 8582. Instead, enter your (loss) in Part II, column (g).

If you have passive activity income, complete Part II, column (h), for that activity. If you have nonpassive income or losses, complete Part II, columns (i) through (k), as appropriate.

If you had a loss from the partnership or S corporation that was not allowed last year because of the passive activity loss rules, but all or part is allowed this year, see [Line 27](#), later, for how to report it.

**Excess business loss rules.** If you report a loss on Schedule E from a partnership or S corporation engaged in a trade or business, use Form 461 to figure your excess business loss. Your excess business loss will not be reflected on your Schedule E; instead, it will be added to your income on Form 1040 and carried forward to a subsequent year as a net operating loss. For more information, see the Instructions for Form 461.

## Domestic Partnerships

See the Schedule K-1 instructions before entering on your return other partnership items from a passive activity or income or loss from any publicly traded partnership.

You can deduct unreimbursed ordinary and necessary expenses you paid on behalf of the partnership if you were required to pay these expenses under the partnership agreement. See [Line 27](#), later, for how to report these expenses.

If you used loan proceeds to buy an interest in, or make a contribution to the capital of, a partnership (debt-financed acquisition), report your share of deductible partnership interest expense on either Schedule A or Schedule E, depending on the type of asset (or expenditure if the allocation is based on the tracing of loan proceeds) to which the interest

expense is allocated. See [Line 28](#), later, for more information about reporting these interest expenses.

If you claimed a credit for federal tax on gasoline or other fuels on your 2020 Form 1040, 1040-SR, or 1040-NR based on information received from the partnership, enter as income in column (h) or column (k), whichever applies, the amount of the credit claimed for 2020.

Part or all of your share of partnership income or loss from the operation of the business may be considered net earnings from self-employment that must be reported on Schedule SE. Enter the amount from Schedule K-1 (Form 1065), box 14, code A, on Schedule SE after you reduce this amount by any allowable expenses attributable to that income.

## Foreign Partnerships

Follow the instructions below in addition to the instructions earlier for [Domestic Partnerships](#).

If you are a U.S. person, you may have received Forms 1099-B, 1099-DIV, and 1099-INT reporting your share of certain partnership income, because payors of income to the foreign partnership in most cases are required to allocate and report payments of that income directly to each of the partners of the foreign partnership. If you received both Schedule K-1 and Form 1099 for the same type and source of partnership income, report only the income shown on Schedule K-1 in accordance with its instructions.

If you are not a U.S. person, you may have received Forms 1042-S reporting your share of certain partnership income, because payors of income to the foreign partnership in most cases are required to allocate and report payments of that income directly to each of the partners of the foreign partnership. If you received both Schedule K-1 and Form 1042-S for the same type and source of partnership income, report the income on your return as follows.

- For all income effectively connected with the conduct of a trade or business in the United States, report only the income shown on Schedule K-1 in accordance with its instructions.

- For all income **not** effectively connected with the conduct of a trade or

business in the United States, report on Schedule NEC (Form 1040-NR) only the income shown on Form 1042-S (if you are required to file Form 1040-NR).

**Requirement to file Form 8865.** If you are a U.S. person, you may have to file Form 8865 if any of the following applies.

1. You controlled a foreign partnership (that is, you owned more than a 50% direct or indirect interest in the partnership).

2. You owned at least a 10% direct or indirect interest in a foreign partnership while U.S. persons controlled that partnership.

3. You had an acquisition, disposition, or change in proportional interest of a foreign partnership that:

- a. Increased your direct interest to at least 10% or reduced your direct interest of at least 10% to less than 10%, or

- b. Changed your direct interest by at least a 10% interest.

4. You contributed property to a foreign partnership in exchange for a partnership interest if:

- a. Immediately after the contribution, you owned, directly or indirectly, at least a 10% interest in the partnership; or

- b. The value of the property you contributed, when added to the value of any other property you or any related person contributed to the partnership during the 12-month period ending on the date of transfer, exceeds \$100,000.

Also, you may have to file Form 8865 if you contributed property with built-in gain to a foreign partnership (or certain domestic partnerships) or to report certain dispositions by a foreign partnership of property you previously contributed to that partnership if you were a partner at the time of the disposition.

For more details, including penalties for failing to file Form 8865, see Form 8865 and its separate instructions.

## S Corporations

Distributions of prior year accumulated earnings and profits of S corporations are dividends and are reported on Form 1040 or 1040-SR, line 3b.

If you used loan proceeds to buy an interest in, or make a contribution to the capital of, an S corporation (debt-financed acquisition), report your share of deductible S corporation interest expense on either Schedule A or Schedule E, depending on the type of asset (or expenditure if the allocation is based on the tracing of loan proceeds) to which the interest expense is allocated. See [Line 28](#), later, for more information about reporting these interest expenses.

Your share of the net income of an S corporation is not subject to self-employment tax.

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## Line 27

If you answered “Yes” on line 27, follow the instructions below. If you do not follow these instructions, the IRS may send you a notice of additional tax due because the amounts reported by the partnership or S corporation on Schedule K-1 do not match the amounts you reported on your tax return.

### Losses Not Allowed in Prior Years Due to the Basis or At-Risk Rules

- Enter your total prior year unallowed losses that are now deductible on a separate line in column (i) of line 28. Do not combine these losses with, or net them against, any current year amounts from the partnership or S corporation.

- Enter “PYA” in column (a) of the same line.

### Prior Year Unallowed Losses From a Passive Activity Not Reported on Form 8582

- Enter on a separate line in column (g) of line 28 your total prior year unallowed losses not reported on Form 8582. Such losses include prior year unallowed losses now deductible because you did not have an overall loss from all passive activities or you disposed of your entire interest in a passive activity in a fully taxable transaction. Do not combine these losses with, or net them against, any current year amounts from the partnership or S corporation.

- Enter “PYA” in column (a) of the same line.

## Unreimbursed Partnership Expenses

You can deduct unreimbursed ordinary and necessary partnership expenses you paid on behalf of the partnership on Schedule E if you were required to pay these expenses under the partnership agreement. You can only deduct unreimbursed expenses on Schedule E that are trade or business expenses under section 162. Don't report unreimbursed partnership expenses separately if the expenses are from a passive activity and you are required to file Form 8582; otherwise, do the following.

- Enter unreimbursed partnership expenses from nonpassive activities on a separate line in column (i) of line 28. Do not combine these expenses with, or net them against, any other amounts from the partnership.

- If the expenses are from a passive activity and you are not required to file Form 8582, enter the expenses related to a passive activity on a separate line in column (g) of line 28. Do not combine these expenses with, or net them against, any other amounts from the partnership.

- Enter “UPE” in column (a) of the same line.

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## Line 28

For nonpassive income or loss and passive income or losses for which you are not filing Form 8582, enter in the applicable column of line 28 your current year ordinary income or loss (after applying any special rules that limit losses) from the partnership or S corporation. Report each related item required to be reported on Schedule E (including items of income or loss stated separately on Schedule K-1) in the applicable column of a separate line following the line on which you reported the current year ordinary income or loss. Also, enter a description of the related item (for example, depletion) in column (a) of the same line.

If you are required to file Form 8582, see the Instructions for Form 8582 before completing Schedule E.

**Debt-financed acquisition.** A debt-financed acquisition is the use of loan proceeds to buy an interest in, or to make a contribution to the capital of, a partnership or S corporation. You must allocate the loan proceeds and the rela-

ted interest expense among all the assets of the entity. You can use any reasonable method.

For interest allocated to trade or business assets (or expenditures), report the interest on a separate line of your Schedule E, Part II. Enter “business interest” and the name of the partnership or S corporation in column (a) and the amount in column (i).

For interest allocated to passive activity use, enter the interest on Form 8582 as a deduction from the passive activity of the partnership or S corporation. Show any deductible amount on a separate line on your Schedule E, Part II. Enter “passive interest” and the name of the entity in column (a) and the amount in column (g).

For interest allocated to investment use, enter the interest on Form 4952. Carry any deductible amount allocated to royalties to a separate line of your Schedule E, Part II. Enter “investment interest” and the name of the entity in column (a) and the amount in column (i). Carry the balance of the deductible amount to Schedule A, line 9.

Any interest allocated to proceeds used for personal purposes is generally not deductible.

For more information on allocating and reporting these interest expenses, see Notice 88-37 in Cumulative Bulletin 1988-1. Also, see Notice 89-35 in Cumulative Bulletin 1989-1.

**Owners of S corporation stock and debt.** If you report a loss, receive a distribution, dispose of stock, or receive a loan repayment from an S corporation, you must check the box in column (e) on line 28 and attach the required basis computation. For more information, see [Basis rules for S corporations](#), earlier.

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## Part III

### Income or Loss From Estates and Trusts

If you are a beneficiary of an estate or trust, use Part III to report your part of the income (even if not received) or loss. You should receive a Schedule K-1 (Form 1041) from the fiduciary. Your copy of Schedule K-1 and its instructions will tell you where on your return

to report the items from Schedule K-1. Do not attach Schedule K-1 to your return. Keep it for your records.

If you are treating items on your tax return differently from the way the estate or trust reported them on its return, you may have to file Form 8082.

If you have estimated taxes credited to you from a trust (Form 1041, Schedule K-1, box 13, code A), enter "ES payment claimed" and the amount on the dotted line next to line 37. Do not include this amount in the total on line 37. Instead, enter the amount on Form 1040, 1040-SR, or 1040-NR, line 26.

A U.S. person who transferred property to a foreign trust may have to report the income received by the trust as a result of the transferred property if, during 2021, the trust had a U.S. beneficiary. See section 679. An individual who received a distribution from, or who was the grantor of or transferor to, a foreign trust must also complete Part III of Schedule B (Form 1040) and may have to file Form 3520. In addition, the owner of a foreign trust must ensure that the trust files an annual information return on Form 3520-A.

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## Part IV

### Income or Loss From Real Estate Mortgage Investment Conduits (REMICs)

If you are the holder of a residual interest in a REMIC, use Part IV to report your total share of the REMIC's taxable income or loss for each quarter included in your tax year. You should receive Schedule Q (Form 1066) and instructions from the REMIC for each quarter. Do not attach Schedule(s) Q to your return. Keep them for your records.

If you are treating REMIC items on your tax return differently from the way the REMIC reported them on its return, you may have to file Form 8082.

If you are the holder of a residual interest in more than one REMIC, attach a continuation sheet using the same format as in Part IV. Enter the combined

totals of columns (d) and (e) on Schedule E, line 39. If you also completed Part I on more than one Schedule E, use the same Schedule E on which you entered the combined totals in Part I.

REMIC income or loss is not income or loss from a passive activity.

**Note.** If you are the holder of a regular interest in a REMIC, do not use Schedule E to report the income you received. Instead, report it on Form 1040 or 1040-SR, line 2b.

**Column (c).** Report the total of the amounts shown on Schedule(s) Q, line 2c. This is the smallest amount you are allowed to report as your taxable income (Form 1040, 1040-SR, or 1040-NR, line 15). It is also the smallest amount you are allowed to report as your alternative minimum taxable income (AMTI) on Form 6251, line 4.

If the amount in column (c) is larger than your taxable income would otherwise be, enter the amount from column (c) on Form 1040, 1040-SR, or 1040-NR, line 15. Similarly, if the amount in column (c) is larger than your AMTI would otherwise be, enter the amount from column (c) on Form 6251, line 4. Enter "Sch Q" on the dotted line to the left of this amount on Form 1040, 1040-SR, or 1040-NR, line 15; and Form 6251, line 4, if applicable.

**Note.** These rules also apply to estates and trusts that hold a residual interest in a REMIC. Be sure to make the appropriate entries on the comparable lines on Form 1041.



*Do not include the amount shown in column (c) in the total on Schedule E, line 39.*

**Column (e).** Report the total of the amounts shown on Schedule(s) Q, line 3b.

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## Part V Summary

### Line 42

Special estimated tax rules may apply if you have gross farming or fishing in-

come. You will not be charged a penalty for underpayment of estimated tax if:

1. Your gross farming or fishing income for 2020 or 2021 is at least two-thirds of your gross income; and
2. You file your 2021 tax return and pay the tax due by March 1, 2022.

For details, see chapter 15 of Pub. 225.

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is approved under OMB control number 1545-1972 and is shown next.

Recordkeeping . . . . .	3 hr., 3 min.
Learning about the law or the form . . . . .	1 hr., 2 min.
Preparing the form . . . . .	1 hr., 34 min.
Copying, assembling, and sending the form to the IRS . . . . .	34 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.