PARTNERSHIP TAX RETURN PREPARATION GUIDE

I. SUMMARY OF SIGNIFICANT ITEMS

The following summary is provided to emphasize tax issues that are relevant to your preparation of the lower-tier partnership tax returns.

ELECTIONS

Form 1065 – The tax return must be prepared using the accrual method.

First Year Elections – Include appropriate elections for recurring items and accrued property taxes. Examples of these elections are included for your use.

DEVELOPMENT FEE

The development fee needs to be accrued and included as part of your building's depreciable basis at the time the building is placed in service.

DEFERRED TAX CREDIT

If you will be deferring your federal tax credit into the following tax year, it is not necessary to file Forms 8609 and 8609-A.

MINIMUM GAIN

Please be aware of the Internal Revenue Code Section 704(b) rules and regulations as they relate to partnerships. Partners are allowed to have a negative capital account and be allocated losses if the partners have "minimum gain." In addition, regulations provide that partners may be allocated losses in excess of basis if the partners are required to make future capital contributions which provide them basis for the allocated losses. We have posted on the CAHEC website an example of a minimum gain calculation for your use in instances where Section 704(b) is an issue. If you have any questions regarding this issue then feel free to contact us.

LIABILITIES

The following is a brief synopsis of how liabilities should be shown on the Schedule K-1, Line K.

Nonrecourse – Typically loans are not shown on this line. However, if the partnership is a LLC then liabilities that are not personally guaranteed by a partner and are not categorized as qualified nonrecourse should be shown on this line. Typical examples for a LLC would be accounts payable, payroll withholdings, and security deposits.

Qualified Nonrecourse Financing – This includes any financing secured by real property and loaned or guaranteed by a federal, state, or local government. It may also include funds borrowed from a qualified person. A qualified person is any person actively and regularly engaged in the business of lending money. This type of debt is not guaranteed by any of the partners.

Other – For limited partnerships, this line would include all liabilities except for qualified nonrecourse financing. These liabilities should generally be allocated only to the general partners. However, this type of debt may appear on a limited partner's K-1 if the limited partner guarantees the debt or is at-risk for the debt.

II. FORM 4562 – DEPRECIATION AND AMORTIZATION

Depreciation will be computed under the Modified Accelerated Cost Recovery System (MACRS) for all depreciable assets placed in service after December 31, 1986. The depreciable lives and methods are as follows:

Building & Building Improvements Straight Line	27.5 years
Land Improvements 150% Declining Balance	15.0 years
Tangible Personal Property Double Declining Balance	5.0 years

Please be aware that if 40% or more of land improvements and tangible personal property are placed in service within the last three months of the tax year then the mid-quarter convention applies. In all other cases, the half-year convention applies.

An Alternative Minimum Tax (AMT) depreciation adjustment should be calculated for real and personal property placed in service after December 31, 1986. The depreciation adjustment should be entered on line 17a of the Schedule K and K-1s. This adjustment is the difference between regular depreciation as computed on Form 4562 and AMT depreciation. For all assets placed in service after 1986 and before 1999 the following lives and methods should be used to determine depreciation for alternative minimum tax purposes:

Building and Building Improvements Straight Line	40 years
Land Improvements 150% Declining Balance	15 years
Tangible Personal Property 150 % Declining Balance	12 years

Please note that for tangible personal property placed in service after 1998 if the double declining balance method is used for regular tax purposes, then the 150% declining balance method and regular tax depreciation life must be used for AMT purposes. However, if the 50-percent or 100-percent additional first-year bonus depreciation allowance is claimed on property depreciated using the double declining balance method, the double declining balance method also applies for AMT purposes (no AMT adjustment is required). For all other non-personal property placed in service after 1998, no AMT adjustment is required, as AMT and regular tax depreciation are identical.

Please identify and make the necessary IRC Section 168(h)(6) election if needed for tax-exempt controlled entities. Please submit a copy of the election with the draft return, if applicable.

Any Adjusted Current Earnings (ACE) preference depreciation should be calculated and entered on line 17f of the Schedule K and K-1s. Please note that ACE does not apply to property placed in service after 1993.

Please do not elect to take bonus depreciation

III. FORM 8609 – LOW INCOME HOUSING CREDIT ALLOCATION CERTIFICATE

Below are some general comments to aid you in completing a typical Form 8609. We anticipate most of the forms to be completed as described below. We have made the assumption that the properties are 100% tax credit occupied. However, if you find variations from this then please contact us regarding the completion of this form.

Part I – Allocation of Credit

This section is to be completed by the housing credit agency only. The tax preparer or general partner should not complete this section.

Part II – First Year Certification

Line 8a – If the project is 100% tax credit occupied then line 8a should be the same as line 7.

Line 8b - This line should be checked “yes” with the appropriate attachment disclosing IRS required information. Please see form instructions for a listing of the required information.

Line 9a – This line should be checked “no.”

Line 9b – This line should be checked “no.”

Line 10a – Check “yes” if the credit is to be claimed the year after the building is placed in service. Check “no” if the credit is to be claimed the year the building is placed in service.

Line 10b – Leave this line blank.

Line 10c – This line should be checked “40-60.” If you check another box then please contact us.

Line 10d – Leave this line blank.

NOTE THE IRS ISSUED GUIDANCE RELATED TO FORM 8609 IN 2005. FORM 8609 WILL ONLY BE REQUIRED TO BE FILED ONCE AND SHOULD BE MAILED TO A SEPARATE MAILING ADDRESS, NOT SENT WITH THE FORM 1065. PLEASE REVIEW THE NEW INSTRUCTIONS PRIOR TO FILING THIS FORM.

IV. FORM 8609-A – ANNUAL STATEMENT

Part II

Line 1 – Enter the amount from Form 8609, Part II, Line 7.

Line 2 - This ratio should be obtained from a completed qualified occupancy summary form to be completed by CAHEC, if project is in first year of credits.

Line 4 – This line should be blank.

Line 5 – Enter the credit percentage reflected on Form 8609, Part I, Line 2.

Line 7-12 – These lines should be blank.

Line 14 – This line should be blank.

Line 15 – Enter the lesser of Line 13 or Line 1b of Part I, Form 8609.

Line 16 – Enter the amount on line 15.

Line 17 – This should be blank, unless in year 11 of the credit period.

V. FORM 8586 – LOW-INCOME HOUSING CREDIT

Part I – Buildings Placed in Service before 1/1/08

Line 1 – Enter the number of 8609 forms that are attached for buildings in service prior to 1/1/08.

Line 2 – Should be answered "no." If answer is "yes," then please contact us to discuss.

Line 3 – Enter the sum of the amounts on Form 8609-A, line 18 from buildings in service prior to 1/1/08.

Part II - Buildings Placed in Service after 12/31/07

Line 8 - Enter the number of 8609 forms that are attached for buildings in service after 12/31/07.

Line 9 - Should be answered "no." If answer is "yes," then please contact us to discuss.

Line 10 - Enter the sum of the amounts on Form 8609-A, line 18 from buildings in service after 12/31/07.

VI. SCHEDULE M-3

Partnerships can voluntarily make the election to file the M-3 if the partnership is not required to file the schedule . If the partnership is filing as a voluntary filer, please mark box E on page 1 of Schedule M-3.

You will be notified in a separate letter if the investment fund for your lower-tier partnership return is a reportable entity partner and therefore a Schedule M-3 is required. If the fund is a reportable entity please properly report the required information on line D.