

**Schedule K-1(NR)**

For the calendar year 2006 or fiscal year beginning [MM/DD/YYYY] and ending [MM/DD/YYYY].

CHECK ONE:  
Original   
Amended

|                                       |   |
|---------------------------------------|---|
| Partner's identifying number          | Partnership's identifying number          |
| Partner's name, address, and ZIP code | Partnership's name, address, and ZIP code |

| Partner's percentage of:   | Before change or termination | End of year |
|----------------------------|------------------------------|-------------|
| Profit sharing.....        | %                            | %           |
| Loss sharing.....          | %                            | %           |
| Ownership of capital ..... | %                            | %           |

Type of partner (individual, trust, etc.): \_\_\_\_\_

**NOTE: ALL CORPORATE PARTNERS MUST USE THIS SCHEDULE.**

| Part I - Distributive Share Items From Federal Form 1065 Schedule K-1  |  | (a)<br>Distributive Share Amount | (b)<br>Arizona Apportionment Ratio | (c)<br>Arizona Source Income | Form 140NR Filers Enter the Amount in Column (c) on: |
|--|--|----------------------------------|------------------------------------|------------------------------|--|
| 1  | Ordinary income (loss) from trade or business activities                                       |                                  |                                    |                              |  |
| 2  | Net income (loss) from rental real estate activities   |                                  |                                    |                              |  |
| 3  | Net income (loss) from other rental activities   |                                  |                                    |                              |  |
| 4  | Total - Add lines 1, 2 and 3   |                                  |                                    |                              |  |
| 5  | Interest   |                                  |                                    |                              | Line B5  |
| 6  | Dividends  |                                  |                                    |                              | Line B6  |
| 7  | Royalties  |                                  |                                    |                              | Line B10   |
| 8  | Net short-term capital gain (loss)   |                                  |                                    |                              | Line B9  |
| 9  | Net long-term capital gain (loss)  |                                  |                                    |                              | Line B9  |
| 10   | Guaranteed payments to partner   |                                  |                                    |                              |  |
| 11   | Net IRC Section 1231 gain (loss)   |                                  |                                    |                              | Line B9  |
| 12   | Other income (loss) - attach schedule  |                                  |                                    |                              | Line B11   |
| 13   | IRC Section 179 expense  |                                  |                                    |                              | Line B10   |
| 14   | Other deductions - attach schedule   |                                  |                                    |                              |  |
| Part II - Partner's Distributive Share of the Adjustment of Partnership Income From Federal to Arizona Basis |  | (a)<br>Distributive Share Amount | (b)<br>Arizona Apportionment Ratio | (c)<br>Arizona Source Income | Form 140NR Filers Enter the Amount in Column (c) on: |
| 15   | Adjustment of partnership income from federal to Arizona basis - from Form 165, page 1, line 6 |                                  |                                    |                              | Line C19 or D30                                      |

**NOTE: Corporate partners see Form 120 or Form 120A instructions for information on reporting the amount from line 15.**

# Arizona Nonresident and Out-of-State Partner's Share of Income and Deductions

**ARIZONA FORM**  
**165**  
**Schedule K-1(NR)**

## Instructions for Individuals and Fiduciaries

Column (c) is your Arizona source income. Nonresident individuals should report the amounts in column (c) on the Form 140NR line numbers indicated on the Schedule K-1(NR). Nonresident trusts or nonresident estates should add lines 4 through 12, column (c), and enter the total on Arizona Form 141AZ, page 2, Schedule A.

However, if your Arizona Form 165 Schedule K-1(NR) shows a loss, you may only claim such losses on your Arizona nonresident return to the extent that such losses are included in your federal adjusted gross income (individuals) or federal taxable income (trust and estates). Therefore, if the loss is considered to be a passive activity loss for federal purposes, the loss will likewise be considered to be a passive activity loss for Arizona purposes.

If you have an Arizona source passive activity partnership loss, you would not necessarily begin the Arizona return with the amounts shown in column (c) of your Arizona Schedule K-1(NR). For Arizona purposes, you must first determine if any portion of the loss shown on your Arizona Schedule K-1(NR) has been limited on your federal return because of the federal passive activity loss rules.

The amount of passive activity loss which is derived from Arizona sources is the amount of the passive activity loss which will be allowed on the Arizona return. Therefore, any portion of the passive activity loss which is not allowed on the federal return due to the passive activity loss limitations will likewise be limited on the Arizona return. That portion of the passive activity loss derived from Arizona sources which is required to be carried forward for federal purposes will similarly be carried forward for Arizona purposes.

**Note:** The amount of Internal Revenue Code § 179 expense deductible is limited to the Arizona portion of the amount deducted on federal Form 1040, Schedule E.

## Line 15 -

Line 15 reflects the amount of partnership income which must be adjusted to determine the difference between Internal Revenue Code § 702(a)(8) and ARS § 43-1401.2. If the amount on line 15 is a positive number, individual partners should enter this amount as an "other addition to income" on Form 140NR, line C19. Fiduciaries should enter a positive amount on line 15 as an "other addition" on Arizona Form 141AZ, page 2, line B3. If the amount on line 15 is a negative number, individual partners should enter this amount as an "other subtraction from income" on Form 140NR, line D30. Fiduciaries should enter a negative amount on line 15 as an "other subtraction" on Arizona Form 141AZ, page 2, line B8.

## Instructions for Corporate Partners

Corporate partners should report the amount on line 15 of the Schedule K-1(NR) according to the instructions in Arizona Form 120 or Form 120A.