REPORTING FLOW-THROUGH ITEMS

Flow-Through Items

- Schedule K-1 forms are used to report flow-through items from:
  - Partnerships
  - S corporations
  - Estates and trusts

Flow-Through Items (cont'd)

- Tax year 2001

- Over 23 million Schedule K-1 forms

- Over $1 trillion income to:
  - Partners
  - Shareholders
  - Beneficiaries

K-1 Matching Program

- Involves issuance of notices when mismatches are identified
- Initiated in 2002 on Schedule K-1 forms for tax year 2000
- Continues in 2003 on Schedule K-1 forms for tax year 2001

K-1 Matching Program (cont'd)

- Implementation of additional filters during 2003 screening process

- Incorporation of stakeholder feedback in 2003 program enhancements

- Education efforts underway throughout 2003

Schedule K-1 Reminders

- Report income in the proper location
- Avoid netting or combining income and deductions
- Report losses carried forward properly

Schedule K-1 Reminders (cont'd)

- Report income and losses from passive activities properly

- Report flow-through income even if a K-1 has not been received at the time the Form 1040 is filed

- Identify amended information properly

Form Revisions

- 2003 Schedule E
  - New line 27 promoting proper reporting of prior year losses, passive losses and un-reimbursed partnership expenses
  - New caution advising that IRS compares amounts on tax returns with items on Schedule(s) K-1

Form Revisions (cont'd)

- Schedule K-1 redesign goals:
  - Simplify form

  - Improve matching process

  - Involve internal and external experts

  - Rollout in tax year 2004

Questions?

For more information visit:

www.irs.gov/businesses/small/