

2023 Partner's Instructions for Schedule K-1 (565)

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2015**, and to the California Revenue and Taxation Code (R&TC).

General Information

In general, for taxable years beginning on or after January 1, 2015, California law conforms to the IRC as of January 1, 2015. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information, go to ftb.ca.gov and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540), California Adjustments - Residents, or Schedule CA (540NR), California Adjustments- Nonresidents or Part-Year Residents, and the Business Entity tax booklets.

The instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the R&TC in the instructions. Taxpayers should not consider the instructions as authoritative law.

California follows the revised federal instructions (with some exceptions) for reporting the sale, exchange or disposition of an asset for which an IRC Section 179 expense was claimed in a prior year by a partnership, limited liability company (LLC) or S corporation.

Partners should follow federal reporting requirements as detailed in federal Form 1065, U.S. Return of Partnership Income, and federal Form 4797, Sales of Business Property.

Special Reporting for R&TC Section 41 – Beginning in taxable year 2020, partners, members, shareholders, or beneficiaries of pass-through entities conducting a commercial cannabis activity licensed under the California Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA) should file form FTB 4197, Information on Tax Expenditure Items. The Franchise Tax Board (FTB) uses information from form FTB 4197 for reports required by the California Legislature. If the partnership conducted a commercial cannabis activity licensed under the California MAUCRSA, or received flow-through income from another pass-through entity in that business, the partnership will report your share of total deductions and credits related to the cannabis income on a separate schedule attached to Schedule K-1. Use the information from this schedule to complete form FTB 4197. Get form FTB 4197 for more information.

New Deduction for Pass-Through Income – For tax years beginning after December 31, 2017, and before January 1, 2026, the federal Tax Cuts and Jobs Act (TCJA) adds IRC Sec. 199A, "Qualified Business Income." Under IRC Section 199A, a non-corporate taxpayer, including a trust or estate, who has qualified business income (QBI) from a partnership, S corporation, or sole proprietorship is allowed a deduction. California does not conform to the deduction for qualified business income of pass-through entities under IRC Section 199A.

Single-Sales Factor Formula – R&TC Section 25128.7 requires all business income of an apportioning trade or business, other than an apportioning trade or business under R&TC Section 25128(b), to apportion its business income to California using the single-sales factor formula. For more information, get Schedule R, Apportionment and Allocation of Income, or go to ftb.ca.gov and search for **single sales factor**.

Market Assignment – R&TC Section 25136 requires **all** taxpayers to assign sales, other than sales of tangible personal property, using market assignment. For more information, get Schedule R, or go to ftb.ca.gov and search for **market assignment**.

A Purpose

The partnership uses Schedule K-1 (565), Partner's Share of Income, Deductions, Credits, etc., to report your distributive share of the partnership's income, deductions, credits, etc. Keep the Schedule K-1 (565) for your records. Information from the Schedule K-1 (565) should be used to complete your California tax return. However, **do not** file the schedule with your California tax return. The partnership has filed a copy with the FTB.

As a partner of the partnership, you are subject to tax on your distributive share of the partnership income, whether or not distributed.

The amount of loss and deduction you are allowed to claim on your California tax return may be less than the amount reported on Schedule K-1 (565). Generally, the amount of loss and deduction you are allowed to claim is limited to your basis in the partnership and the amount for which you are considered at-risk. If you have losses, deductions, or credits from a passive activity, you must also apply the passive activity loss and credit rules. It is the partner's responsibility to consider and apply any applicable limitations. See Instructions, Loss Limitations.

You should also read the federal Schedule K-1 (Form 1065), Partner's Instructions for Schedule K-1 (Form 1065), before completing your California tax return with this Schedule K-1 (565) information.

For more information on the treatment of partnership income, deductions, credits, etc., get the following federal publications:

- Pub. 541, Partnerships
- Pub. 535, Business Expenses

Any information returns required for federal purposes under IRC Sections 6038, 6038A, 6038B, and 6038D are also required for California purposes. Attach the information returns to your California tax return when filed. If the information returns are not provided, penalties may be imposed under R&TC Sections 19141.2 and 19141.5.

B Definitions

General Partner

An individual or entity owning an interest in a partnership who is personally liable for partnership debts and who is authorized to act on behalf of the partnership.

Limited Partner

An individual or entity owning an interest in a partnership whose potential personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership.

Nonrecourse Loans

Liabilities of the partnership for which none of the partners have assumed any personal liability.

Qualified Nonrecourse Financing

Any financing for which no one is personally liable for repayment that is borrowed for use in an activity of holding real property and that is loaned or guaranteed by a federal, state, or local government, or borrowed from a "qualified person."

California Business Situs

The place at which intangible personal property is employed as capital in California or the possession and control of the property is localized in connection with a business in California so that its substantial use and value attach to and become an asset of the business in California.

Apportionment

The process by which business income from a trade or business is conducted in two or more states (an apportioning trade or business) is divided between taxing jurisdictions. Get Schedule R for more information.

Unitary

A method of taxation by which all of the activities comprising a single trade or business are viewed as a single unit, regardless of whether those activities are conducted by divisions of a single entity or by commonly owned or controlled entities. For more information about unitary business principles, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report.

Election

The choice of a particular accounting method for tax reporting purposes. Generally, the partnership decides how to compute taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use.

However, certain elections are made separately on your California tax return and not by the partnership. This election is made under IRC Section 617 (deduction and recapture of certain mining exploration expenditures, paid or incurred).

Additional Definitions

For definitions of a partnership, general partnership, limited partnership, limited liability partnership, etc., see the instructions for Form 565, Partnership Return of Income, or the instructions for federal Form 1065.

C Reporting Information from Columns (d) and (e)

If the partnership derives income from activities conducted both within and outside California, the partnership is an apportioning partnership. All partnerships (apportioning and nonapportioning) should complete columns (c) and (d). Apportioning partnerships must also complete column (e). The apportioning partnership will determine which items of income constitute business or nonbusiness income and will use Schedule R to determine the partnership income from California sources. The partnership's business income apportioned to California are entered in column (e). Partnership nonbusiness income from real and tangible property will also be entered in column (e). Nonbusiness intangibles are sourced or allocated at the partner level and must be entered on Table 1 instead. For more information see General Information D, Nonbusiness Income, and General Information E, Unitary Partners. Resident partners will use only the information in column (c) and column (d) to report their share of the partnership's income or loss.

Nonresident, corporate, and other entity partners must report their distributive share of income, loss or credits apportioned or allocated to California as indicated on Schedule K-1 (565), column (e). Special rules apply if a partner and the partnership engage in a unitary business. See Cal. Code Regs., tit. 18 sections 17951-4 and 25137-1 for more information. Also see General Information E, Unitary Partners.

Residents, part-year residents, and some nonresidents may qualify for a credit for taxes paid to other states on income that is apportioned or allocated to a state other than California. For more information, get California Schedule S, Other State Tax Credit.

Nonapportioning partnerships do not need to fill out column (e) on Schedule K-1 (565) if the partner is a resident and the "Yes" box is checked on Question I. However, the final determination of residency is made at the partner level. If the partnership is uncertain as to the residency status of the partner, it should fill out column (e) for that partner.

Inconsistent Treatment of Items

Generally, partners must report tax items shown on their Schedule K-1s and any attached schedules, the same way the partnership treated the items on its tax return. If the treatment on a partner's original or amended tax return is inconsistent with the partnership's treatment, or if the partnership has not filed a tax return, the partner must attach a statement with its original or amended tax return to identify and explain any inconsistency or to note that a partnership tax return has not been filed. If a partner is required to attach this statement but fails to do so, the partner may be subject to an accuracy related penalty.

D Nonbusiness Income

The determination of whether partnership income is business income or nonbusiness income is made at the partnership level. Nonbusiness income from real or tangible personal property located in California, such as rents, royalties, gains, or losses is California source income (Cal. Code Regs., tit. 18 section 17951-3 and R&TC Sections 23040, 25124 and 25125). This information should be included on the appropriate line of column (e), as well as in Table 2, Part B, if the partnership believes it is unitary with the partner or if the partnership is uncertain whether it is unitary with the partner. Non-unitary partners should ignore the information in Table 2 and use column (e).

If the partnership has income from nonbusiness intangibles, the source of that nonbusiness intangible income will be determined at the partner level. In most cases, income from nonbusiness intangible property is sourced at the residence or commercial domicile of the partner. If the partner is an individual, estate, trust, or pass-through entity owned by an individual, income from nonbusiness intangibles will have a California source if the intangible has acquired a California business situs. For example, a nonresident pledges stocks, bonds, or other intangible personal property in California. This pledge is security for the payment of debt, taxes, or other liabilities incurred for a business in the state. The pledged property will acquire a business situs in California. Another example is a nonresident who maintains an office and bank account in California for the business activities in this state. The bank account will acquire a business situs in California. See Cal. Code Regs., tit. 18 section 17951-2 and R&TC Section 17952. If the

intangible income is determined to have a business situs by the partnership, the intangible income will be included in column (e).

If the partner is a corporation or another business entity owned by a corporation, Cal. Code Regs., tit. 18 section 25137-1 requires that nonbusiness income from intangibles be allocated in accordance with the rules of R&TC Sections 25125 to 25127.

Because the source of intangible nonbusiness income is dependent upon the status of the individual partner, that income is not included in column (e) and is entered only in Table 1. The partner must determine the source of such income by applying the rules described above.

E Unitary Partners

The following rules apply to corporations, individuals and other entities that conduct a trade or business that is unitary with the partnership's trade or business (see Cal. Code Regs., tit. 18 section 17951-4, incorporating the provisions of R&TC Section 25137 and regulations thereunder).

Unitary partners cannot use the California source information reflected in column (e). Such partners must use the information in Table 1 and Table 2 as described in the following instructions, and in the Line Instructions.

The partner's distributive share of partnership items is determined by applying the partnership rules in R&TC Sections 17851 through 17858. The determination of the portion of the distributive share of business and nonbusiness income that has its source in California or, that is includible in the partner's business income subject to apportionment is made in accordance with Cal. Code Regs., tit. 18 section 25137-1 if the partner, or the partnership, or both, have income from sources within and outside this state. The partner, in computing net income for its tax accounting period, must include its distributive share of partnership items referred to in this section for any partnership taxable year ending within or with the partner's tax accounting period.

Distributive Items of Business Income

Apportionment of Business Income – Unitary Business

If the partnership's activities and the partner's activities constitute a unitary business under established standards (other than ownership requirements), the combined business income of this single trade or business apportioned to California is determined by combining the partner's distributive share of the partnership's apportionment factors with the factors of the partner for any partnership year ending within the partner's tax accounting period. Combined business income is then apportioned by the sales factor. Use of a 3-factor formula depends upon whether combined gross business receipts (partner's share of the partnership's gross business receipts plus the partner's own gross business receipts) are more than 50% from agricultural, extractive, banking, or savings and loans and other financial business activities. For more information, get Schedule R.

If you are a partner that is unitary with the partnership, use Table 2 to compute your factors, applying the rules shown below (see Cal. Code Regs., tit. 18 sections 25129 to 25137 for examples). Partners that are unitary with the partnership should perform the following steps:

1. Combine your distributive share of the partnership's business income with your own business income to determine total business income.
2. If using the single-sales factor formula, compute the sales factor by combining your share of the partnership's sales factor from Table 2, Part C, with your own sales factor as explained in these instructions. If using the 3-factor formula, compute property, payroll, and sales factors by combining your share of the partnership's factors from Table 2, Part C, with your own factors as explained in these instructions.
3. Apply the apportionment factor determined in Step 2 to the total business income determined in Step 1 to arrive at business income apportioned to this state.

Unitary Partner's Computation of the Sales Factor

Compute the numerator and denominator of the sales factor in accordance with Cal. Code Regs., tit. 18 sections 25134 to 25136. Apply the following special rules:

- A. Include in the denominator of the sales factor your distributive share of the partnership's sales that give rise to business income. See Table 2, Part C.
- B. Include in the numerator of your sales factor the amount of such sales described in part A (above) attributable to California.

- C. Eliminate intercompany sales as one of the following:
- Sales by the partner to the partnership to the extent of the partner's interest in the partnership.
 - Sales by the partnership to the partner not to exceed the partner's interest in all partnership sales. See Cal. Code Regs., tit. 18 section 25137-1(f)(3).

Unitary Partner's Computation of Property Factor

Use Schedule R to compute the numerator and the denominator of the property factor. Adjust factors in accordance with Cal. Code Regs., tit. 18 sections 25129, 25130, and 25131. Also apply the following special rules:

- A. Include in the denominator of your property factor your distributive share of the partnership's beginning and ending balances of real and tangible personal property owned (if rented, multiply net annual rents paid, by 8) and used during the tax accounting period in the regular course of business. See Table 2, Part C.
- B. Include in the numerator of your property factor the value of such property that is described in part A (above) that is located in California. See Table 2, Part C.
- C. See Cal. Code Regs., tit. 18 section 25137-1(f)(1)(B) for examples of how to avoid duplication of the value of property that is rented by the partner to the partnership or vice versa.

Unitary Partner's Computation of Payroll Factor

Use Schedule R to compute the numerator and the denominator of the payroll factor in accordance with Cal. Code Regs., tit. 18 sections 25132 and 25133. Apply the following special rules:

- A. Include in the denominator of your payroll factor your distributive share of the partnership's payroll used to produce business income. See Table 2, Part C.
- B. Include in the numerator any such payroll described in part A (above) that is applicable to California. See Table 2, Part C.

Apportionment of Business Income – Nonunitary Business

If the apportioning trade or business conducted by a partner is not unitary with the apportioning trade or business of the partnership, the partnership apportions its business income separately, using Schedules R, R-1, R-2, R-3, and R-4 only. The different items of business income as apportioned to CA are entered in column (e).

Distributive Items of Nonbusiness Income for a Unitary Partner

Income in Table 2, Part B, is from a California source under R&TC Sections 25124 and 25125. Unitary partners must make certain to separately include such items from Tables 1 and 2 as California source income. Unitary partners shall use Tables 1 and 2 to report nonbusiness income instead of Schedule K-1 (565), column (e).

Instructions

Questions and Items

The partnership completes the questions and items on the Schedule K-1 (565) for all partners. For more information, get the instructions for federal Schedule K-1 (Form 1065).

Schedule K-1 (565)

Important Note to Partners: If your Schedule K-1 (565) reports losses and/or deductions, you must first apply the basis, at-risk, and the passive activity loss limitations before such losses/deductions can be deducted on your California return. See Instructions, Loss Limitations. Also, see IRC Section 705(a) for information on how to compute basis.

If your return is ever examined, you may be required to provide your computations and the supporting documents for your partnership interest.

If you are an individual partner, the amounts in column (c), California adjustments, and column (d), Total amounts using California law, that are from nonpassive activities must be reported on the appropriate California form or schedule; such as, Schedule D (540), California Capital Gain or Loss Adjustment, Schedule D-1, Sales of Business Property, Schedule CA (540) or Schedule CA (540NR).

Amounts in column (e), California source amounts and credits, that are from passive activities must be reported on form FTB 3801, Passive Activity Loss Limitations, form FTB 3801-CR, Passive Activity Credit Limitations, or form

FTB 3802, Corporate Passive Activity Loss and Credit Limitations. Use the related worksheets to figure any passive loss limitations. If the partnership knows that you are a California resident it may leave column (e) blank. California residents are subject to tax on their entire taxable income shown in column (d) (R&TC Section 17041).

If you are not an individual partner, report the amounts as instructed on your California return.

If you have losses, deductions, credits, etc., from a prior year that were not deductible or usable because of certain limitations, they may be taken into account in determining your net income, loss, etc., for this year. However, **do not** combine the prior-year amounts with any amounts shown on this Schedule K-1 (565) to get a net figure. Instead, report the amounts on an attached schedule, statement, or form on a year-by-year basis. Get the instructions for federal Schedule K-1 (Form 1065) for more information.

Loss Limitations

The amounts shown on line 1 through line 3 of your Schedule K-1 (565) reflect your distributive share of income or loss from the partnership's business or rental operations. If you have losses from the partnership, you should be aware that there are three potential limitations imposed on losses before you may deduct losses on your tax return. These limitations and the order in which they must be applied are:

- Basis limitations (IRC Section 704)
- At-risk limitations (IRC Section 465)
- Passive activity loss and credit limitations (IRC Section 469)

Each of these limitations is discussed separately in the following instructions.

Other limitations may apply to specific deductions such as the investment interest expense deduction. These limitations on specific deductions generally apply before the basis, at-risk, and passive loss limitations.

Basis Rules

Generally, California tax law conforms to federal tax law concerning basis limitations. You may not claim your share of a partnership loss (including a capital loss) that is greater than the adjusted basis of your partnership interest at the end of the partnership's taxable year.

The partnership is not responsible for keeping the information needed to compute the basis of your partnership interest. Although the partnership does provide you with an analysis of the changes to your capital account on your Schedule K-1 (565), Item L, that information is based on the partnership's books and records and should not be used to compute your basis.

You can compute the basis of your partnership interest by adding items that increase your basis and then subtracting items that decrease your basis.

Items that increase your basis may include the following:

- Money and the adjusted basis of property you contributed to the partnership.
- Your distributive share of the partnership's income.
- Your distributive share of the increase in the liabilities of the partnership (and/or your individual liabilities caused by your assumption of partnership liabilities).

Items that decrease your basis, but not below zero, may include the following:

- Money and the adjusted basis of property distributed to you.
- Your share of the partnership's losses.
- Your share of the decrease in the liabilities of the partnership (and/or your individual liabilities assumed by the partnership).

This is not a complete list of items and factors that determine basis. Get federal Pub. 541 for a complete discussion of how to determine the basis of your partnership interest.

At-Risk Rules

The at-risk rules generally limit the amount of loss, (including loss on disposition of assets) and other deductions (such as IRC Section 179 deduction) that you can claim to the amount you could actually lose in the activity.

If you have: (1) a loss or other deduction from an activity carried on as a trade or business or for the production of income by the partnership; and (2) amounts in the activity for which you are not at-risk, you will have to complete federal Form 6198, At-Risk Limitations, to figure the allowable

loss to report on your return. Complete federal Form 6198 **using California amounts.**

Get the instructions for federal Schedule K-1 (Form 1065), At-Risk Limitations, and federal Pub. 925, Passive Activity and At-Risk Rules, for more information.

Passive Activity Loss and Credit Rules

IRC Section 469 limits the deduction of certain losses and credits. California law generally conforms to this federal provision. These rules apply to partners who have a passive activity loss or credit for the taxable year.

For California purposes, passive loss limitations apply to individuals, estates, trusts (other than grantor trusts), closely held corporations, and S corporations.

Even though the passive loss rules do not apply to grantor trusts, partnerships, and LLCs, they do apply to the owners of these entities.

A passive activity is generally a trade or business activity in which the partner does not materially participate or a rental real estate activity in which the partner does not actively participate. A partnership may have more than one activity. Each partner must apply the passive activity loss and credit limitations on an activity-by-activity basis.

Individuals, estates, trusts, and S corporations must complete form FTB 3801 to calculate the allowable passive losses, and form FTB 3801-CR to calculate the allowable passive credits. Corporations must complete form FTB 3802.

The amounts reported on Schedule K-1 (565), line 1 and line 15f are normally passive activity income (loss) or credits from the trade or business of the partnership if you are a limited partner, or if you are a general partner who did not materially participate in the trade or business activities of the partnership. The amounts reported on Schedule K-1 (565), line 2, line 3, line 15b, line 15c, and line 15d are from rental activities of the partnership and are passive activity income (loss) or credits to all partners. There is an exception to this rule for losses incurred by qualified investors in qualified low-income housing projects. The partnership will identify any of these qualified amounts on an attachment for line 2.

The passive loss rules apply separately to the items attributable to each publicly traded partnership (PTP) that is not treated as a corporation under IRC Section 7704. Thus, partners who do not materially participate in the operations of a PTP are allowed to deduct their share of the PTP's losses only to the extent of passive income from the same PTP or when the entire interest is sold (IRC Section 469(k)). See the instructions for form FTB 3801 and form FTB 3802 for the rules to calculate and report income, gains, and losses from passive activities that you held through each PTP you owned during the taxable year.

Get the instructions for federal Schedule K-1 (Form 1065), Passive Activity Limitations, and federal Pub. 925 for more information.

Investment Partnership Income

If you are a nonresident individual, the amounts in column (e) will generally not be taxable by California (R&TC Section 17955). However, nonresident individuals will be taxed on their distributive share of California source income from an investment partnership if the income from the qualifying investment securities is interrelated with either of the following:

- Any other business activity of the nonresident partner.
- Any other entity in which the nonresident partner owns an interest that is separate and distinct from the investment activity of the partnership and that is conducted in California.

If you are a corporate partner, the amounts in column (e) will also generally not be taxable in California provided the income from the partnership is the corporation's only California source income. However, if the corporation does either of the following:

- Participates in the management of the investment activities of the partnership or is engaged in a unitary business with another corporation or partnership that participates in the management of the investment activities of the partnership.
- Has income attributable to sources within California other than income from the investment partnership.

Then the corporation will be taxable on its distributive share of California source income of the partnership. See R&TC Section 23040.1 for more information.

Line Instructions

Enter the difference between federal and California amounts from column (c) on Schedule CA (540), if you are a resident; or on Schedule CA (540NR), if you are a nonresident or part-year resident. Also, if you are a nonresident or part-year resident, enter California source amounts from the Schedule K-1 (565), column (e), on your Schedule CA (540NR), column E.

G(1) – If this box is checked, the partnership is a PTP as defined in IRC Section 469(k)(2). Follow the instructions for form FTB 3801 or form FTB 3802 for reporting income, gains, and losses from PTPs.

G(2) – If this box is checked, the partnership is an investment partnership as defined in R&TC Sections 17955 and 23040.1. If you are a nonresident individual, the amounts in column (e) will generally not be taxable in California.

(J) – If you have contributed property with a built-in gain or loss during the tax year, the partnership will check the “Yes” box and will attach a statement. For more information, get the instructions for the federal Schedule K-1 (Form 1065), Item M.

(L) – Beginning in taxable year 2021, all partnerships must report partners' capital accounts using the tax basis method on California Schedule K-1 (565). Current year net income/loss and other increases/decreases are now separately reported in columns (c) and (d), respectively. For more information on partner tax basis capital account, get the Partner's Instructions for federal Schedule K-1 (Form 1065).

Nonresident and Part-Year Resident Partners, get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency. Part-year resident partners must consider their period of residency and nonresidency in the computation of total California income. The line instructions below that instruct you to enter information from Schedule K-1 (565), column (d), on other forms, apply to resident partners. When the instructions make reference to column (d), nonresident members should take information from columns (c), (d), and (e) and apply the information to the appropriate line relating to computation of total income and income from California sources.

Income (Loss)

Line 1 – Ordinary Income (Loss) from Trade or Business Activities

The amount reported on line 1, column (d), is your share of the ordinary income (loss) from the trade or business activities of the partnership. For individual partners, where this amount is reported depends on whether or not this amount is a passive activity to you.

If, in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the income on form FTB 3801 or form FTB 3802. If a loss is reported on line 1, column (d), report the loss on the applicable line of form FTB 3801 or form FTB 3802 to determine how much of the loss is allowable.

If the partnership has income from activities both within and outside California, the amount nonresidents or corporate partners must report on their California returns is a function of the partnership's apportionment percentage and allocation of income. Reporting instructions are included in the information provided by the partnership. See Cal. Code Regs., tit. 18 sections 17951-4 and 25137-1 for more information. In addition, see General Information E, Unitary Partners.

Line 2 – Net Income (Loss) from Rental Real Estate Activities

Generally, the income (loss) reported on line 2, column (d), is a passive activity amount to all partners. However, the loss limitations of IRC Section 469 do not apply to qualified investors in qualified low-income housing projects. If applicable, the partnership will attach a schedule for line 2 to identify such amounts. If you have an amount on Schedule K-1 (565), line 2, column (c), report the California adjustment on Schedule CA (540), Part I, Section B, line 5, or on Schedule CA (540NR), Part II, Section B, line 5, column B or column C, whichever is applicable.

Use the following instructions to determine where to enter the line 2 amount.

- If you have a loss on line 2, column (d) (other than a qualified low-income housing project loss), enter the loss on the applicable line of form FTB 3801 or form FTB 3802 to determine how much of the loss is allowable. Your share of the loss may be eligible for the special \$25,000 allowance for rental real estate losses. Get the instructions for form FTB 3801 or form FTB 3802 for more information.

Get the federal Schedule K-1 (Form 1065) Specific Instructions for box 2, item 1, and item 2 for more information.

Report any California adjustment amount from column (c) on Schedule CA (540 or 540NR) if you are a qualified investor reporting a qualified low-income housing project loss.

- If you have only income on line 2, column (d), and no other passive losses, enter any California adjustment amount from column (c) on Schedule CA (540 or 540NR). However, if in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the line 2, column (d), income on the applicable line of form FTB 3801 or form FTB 3802.

Line 3 – Net Income (Loss) from Other Rental Activities

The amount on line 3, column (d) is a passive activity amount for all partners.

- If line 3, column (d) is a loss, report the loss on the applicable line of form FTB 3801 or form FTB 3802.
- If only income is reported on line 3, column (d), and you have no other passive losses, report the California adjustment from column (c) on Schedule CA (540 or 540NR). However, if in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, report the line 3 income on the applicable line of form FTB 3801 or form FTB 3802.

Line 4a through 4c – Guaranteed Payments for Services and Capital

Amounts on these lines are not normally part of a passive activity. If there is an amount on Schedule K-1 (565), line 4c, Total guaranteed payments, column (c), enter this amount on Schedule CA (540), Part I, line 8z, or on Schedule CA (540NR), Part II, line 8z, column B or column C, whichever is applicable. If this is a passive activity for the partner, then the partner must also complete the passive activity form. Use federal Form 8582, Passive Activity Loss Limitations, for federal purposes and form FTB 3801 for California purposes.

Line 5 through Line 11a – Portfolio Income

Portfolio income (loss), referred to as “portfolio” income (loss) in these instructions, is generally not subject to the passive activity limitation rules of IRC Section 469. Portfolio income includes interest, dividend, royalty income and gain or loss on the sale of property held for investment. Generally, amounts reported on line 8, line 9, and line 11a are gains or losses attributable to the disposition of property held for investment and are, therefore, classified as portfolio income (loss). However, if an amount reported on line 8, line 9, or line 11a, column (d), is a passive activity amount, the partnership should identify the amount.

Line 5 – Interest Income

If you have an amount on Schedule K-1 (565), line 5, column (c), report this amount on Schedule CA (540), Part I, Section A, line 2, or on Schedule CA (540NR), Part II, Section A, line 2, column B or Column C, whichever is applicable.

Line 6 – Dividends

If you have an amount on Schedule K-1 (565), line 6, column (c), report this amount on Schedule CA (540), Part I, Section A, line 3, or on Schedule CA (540NR), Part II, Section A, line 3, column B or column C, whichever is applicable.

Line 7 – Royalties

If you have an amount on Schedule K-1 (565), line 7, column (c), report this amount on Schedule CA (540), Part I, Section B, line 5, or on Schedule CA (540NR), Part II, Section B, line 5, column B or column C, whichever is applicable.

Line 8 and Line 9 – Net Short-term and Net Long-term Capital Gain (Loss)

If you have an amount on Schedule K-1 (565), line 8 or line 9, column (d), report this amount on the Schedule D (540 or 540NR), line 2.

Line 10a and Line 10b – Total Gain and Total Loss under IRC Section 1231 (Other Than Due to Casualty or Theft)

If the amounts on line 10a and line 10b relate to rental activity, the IRC Section 1231 gain (loss) is a passive activity amount. If the amounts on line 10a and line 10b relate to a trade or business activity and you are a limited partner, the IRC Section 1231 gain (loss) is a passive activity amount.

- If the amount is not a passive activity amount report it on Schedule D-1, line 2, column (g).
- If a gain is reported on line 10a, column (d), and it is a passive activity amount report the gain on Schedule D-1, line 2, column (g).
- If a loss is reported on line 10b, column (d), and it is a passive activity amount, get form FTB 3801 to determine if your loss is limited.

Line 11a – Other Portfolio Income (Loss)

The partnership uses line 11a, column (d), to report portfolio income other than interest, dividend, royalty, and capital gain (loss) income. The partnership should attach a schedule to Schedule K-1 (565) to tell you what kind of portfolio income is reported on line 11a, column (d). An example of portfolio income that could be reported on line 11a, column (d), is from a real estate mortgage investment conduit (REMIC) in which the partnership is a residual interest holder.

If the partnership has a residual interest in a REMIC, it will report your share of REMIC taxable income (net loss) on the schedule. Report the adjustment amount from column (c) on Schedule CA (540 or 540NR). The partnership will also report your share of “excess inclusion” and your share of IRC Section 212 expenses.

For taxable years beginning after December 31, 2017, and before January 1, 2026, the federal deduction for miscellaneous itemized deductions subject to the 2% floor is suspended. California does not conform. You may deduct these IRC Section 212 expenses as a miscellaneous deduction for California purposes.

Line 11b and Line 11c – Total Other Income and Total Other Loss

Amounts reported on these lines are other items of income (loss) not included on line 1 through line 11a. The partnership should give you a description for each of these items.

Use the instructions below to:

- Report income or gain (not losses) from passive activities.
- Report income, gain, or losses from all other passive activities.

If you have losses from passive activities, or a combination of income, gains, and losses from passive activities, you must first complete form FTB 3801 or form FTB 3802 to determine if any of your losses are limited by the passive loss rules. Use the instructions below to report passive income and losses after the passive loss limitations have been computed.

Line 11b and line 11c items may include:

- Partnership gains from disposition of farm recapture property (get Schedule D-1) and other items to which IRC Section 1252 applies.
- Recoveries of bad debts, prior taxes, and delinquency amounts (IRC Section 111). Report the amounts from line 11b and line 11c, column (c), on Schedule CA (540), Part I, line 8z, or on Schedule CA (540NR), Part II, line 8z, column B or column C, whichever is applicable.
- Gains and losses from wagering, IRC Section 165(d). Report the amounts from line 11b and line 11c, column (c), on Schedule CA (540), Part I, line 8z, or on Schedule CA (540NR), Part II, line 8z, column B or column C, whichever is applicable.
- Any income, gain, or loss to the partnership under IRC Section 751. Report this amount on Schedule D-1, line 10.
- Specially allocated ordinary gain or loss. Report this amount on Schedule D-1, line 10.
- Net gain or loss from involuntary conversions due to casualty or theft. The partnership will give you a schedule that shows the California amounts to be entered on federal Form 4684, Casualties and Thefts, Section B, Part II, line 34, column (b)(i), column (b)(ii), and column (c).

Deductions

Line 12 – Expense Deduction for Recovery Property

For California the maximum amount of expense deduction for recovery property (IRC Section 179 deduction) that you can claim for all sources is \$25,000. The \$25,000 limit is reduced if the total cost of IRC Section 179 property placed in service during the year exceeds \$200,000.

California does not conform to the federal limitation amounts.

The partnership will provide information on your share of the IRC Section 179 deduction and of the cost of the partnership's IRC Section 179 property so that you can compute this limitation. Your IRC Section 179 deduction is also limited to your taxable income from all of your trades or businesses. Get form FTB 3885A, Depreciation and Amortization Adjustments, and get federal Pub. 534, Depreciating Property Placed In Service Before 1987, and federal Pub. 946, How To Depreciate Property, for more information.

If the IRC Section 179 deduction is a passive activity amount, report it on the applicable line of form FTB 3801. If it is not a passive activity amount and there is an amount on Schedule K-1 (565), line 12, column (c), enter this amount on Schedule CA (540), Part I, line 8z, or on Schedule CA (540NR), Part II, line 8z, column B or column C, whichever is applicable.

Line 13a – Cash Contributions

The partnership will provide a schedule that shows which contributions were subject to the 50%, 30%, and 20% limitations. See the instructions for federal Form 1040, U.S. Individual Income Tax Return or federal Form 1040-SR, U.S. Tax Return for Seniors, and federal Pub. 526, Charitable Contributions, for more information.

For taxable years beginning after December 31, 2017, and before January 1, 2026, the 50% limitation under IRC Section 170(b) for cash contributions to public charities and certain private foundations is increased to 60% for federal purposes. California does not conform. The limitation for California is 50%.

California has not conformed to any of the provisions of the Katrina Emergency Disaster Relief Act of 2005.

If there is an amount on Schedule K-1 (565), line 13a, column (c), enter this amount on Schedule CA (540), Part II, line 11 or on Schedule CA (540NR), Part III, line 11.

Line 13b – Noncash Contributions

If there is an amount on Schedule K-1 (565), line 13b, column (c), enter this amount on Schedule CA (540), Part II, line 12 or on Schedule CA (540NR), Part III, line 12.

Line 13c – Investment Interest Expense

If the partnership paid or accrued interest debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited. For more information and the special provisions that apply to investment interest expense, get form FTB 3526, Investment Interest Expense Deduction, and federal Pub. 550, Investment Income and Expenses.

Enter the amount from column (d) on form FTB 3526 along with your investment interest expense from any other sources. Form FTB 3526 will help you determine how much of your total investment interest is deductible.

Line 13d – IRC Section 59(e) Expenditures

If you have an amount on Schedule K-1 (565), line 13d, get the instructions for the federal Schedule K-1 (Form 1065), box 13. The partnership should give you a description and the amount of your share for each item applicable to this category.

Line 13e – Deductions Related to Portfolio Income

Amounts entered on this line are the deductions that are clearly and directly allocable to portfolio income (other than investment interest expense and expenses from a REMIC). If you have an amount on Schedule K-1 (565), line 13e, column (c), enter this amount on Schedule CA (540), Part II, line 21, or on Schedule CA (540NR), Part III, line 21. If any of the line 13e amount should not be reported on Schedule CA (540 or 540NR), the partnership should identify these amounts.

Line 13f – Other Deductions

Amounts on this line are deductions not included on lines 12, 13a through 13e. If there is an amount on Schedule K-1 (565), line 13f, column (c), enter this amount on the applicable line of Schedule CA (540 or 540NR).

Get the instructions for federal Schedule K-1 (Form 1065), box 13, for examples of other deductions. Also, get FTB Pub. 1001 for differences between federal and California tax law for certain deductions.

Line 14

The information reported in box 14 of the federal Schedule K-1 (Form 1065), does not apply to California and therefore there is no line 14.

Credits

If you have credits that are passive activity credits, complete form FTB 3801-CR (use form FTB 3802 for corporations) in addition to the credit forms referenced. Get the instructions for form FTB 3801-CR (or form FTB 3802) for more information.

Line 15a – Total Withholding

Total withholding is the sum of your distributive share of taxes withheld from payments to the partnership by another entity (allocated to all partners according to their respective partnership interests) plus taxes withheld on you by the partnership, or back up withholding on you as a domestic or foreign nonresident partner. If there is a withholding credit allocated to you or taxes were withheld on you by the partnership, the partnership must provide a completed Form 592-B, Resident and Nonresident Withholding Tax Statement. Attach Form 592-B to the front of your California tax return to claim the amount withheld. Schedule K-1 (565) may not be used to claim the withholding credit. If the partnership is not on a calendar year, the amount on line 15a may not match the amount on Form 592-B because of the difference in accounting periods. Claim the amount shown on Form 592-B on one of the following:

- Form 540, California Resident Income Tax Return, line 73.
- Form 540NR, California Nonresident or Part-year Resident Income Tax Return, line 83.
- Form 541, California Fiduciary Income Tax Return, line 31.
- Form 109, California Exempt Organization Business Income Tax Return, line 17.
- Form 100, California Corporation Franchise or Income Tax Return, line 33.
- Form 100S, California S Corporation Franchise or Income Tax Return, line 33.

Get FTB Pub. 1017, Resident and Nonresident Withholding Guidelines, for more information.

Line 15b – Low-Income Housing Credit

The farmworker housing credit has been consolidated into the low-income housing tax credit. For more information, get form FTB 3521, Low-Income Housing Credit.

Any allowable credit is entered on form FTB 3521. The passive activity credit limitations of IRC Section 469, however, may limit the amount of credit. Credits from passive activities are generally limited to tax attributable to passive activities.

You cannot claim the low-income housing credit on any qualified low-income housing project for which any person was allowed any benefit under Section 502 of the Tax Reform Act of 1986.

Line 15c – Other Credits Related to Rental Real Estate Activities

The information you need to compute credits related to rental real estate activities other than the low-income housing credit is provided on this line with an attached schedule. These credits may be limited due to passive activity limitation rules.

Line 15d – Credits Related to Other Rental Activities

Any information you need to compute credits related to rental activities other than rental real estate activities is provided on this line. These credits may be limited due to passive activity limitation rules.

Line 15e – Nonconsenting Nonresident Members' Tax Paid by LLC on Behalf of Your Partnership.

This line shows any income tax paid on your partnership's behalf by an LLC if the general partner in the partnership did not sign form FTB 3832, Limited Liability Company Nonresident Members' Consent, consenting to California's jurisdiction to tax the partnership's distributive share of the LLC income attributable to California sources.

You must attach a copy of the Schedule K-1 (568), Member's Share of Income, Deductions, Credits, etc., previously issued to your partnership by the LLC and the Schedule K-1 (565) issued to you by your partnership.

Line 15f – Other Credits

This line is used to report information you need to compute pass-through credits and other items that are not includable on line 15a through line 15d but are related to the trade or business activity. The partnership should provide a schedule and/or statement explaining any items.

Credits that may be reported on line 15f (depending on the type of activity they relate to) include:

- California Competes Tax Credit. Get form FTB 3531.
- California Motion Picture and Television Production. Get form 3541.
- Cannabis Equity Tax Credit. Get form FTB 3821.
- College Access Tax Credit. Get form FTB 3592.
- Disabled Access Credit for Eligible Small Businesses. Get form FTB 3548.
- Donated Agricultural Products Transportation Credit. Get form FTB 3547.
- Enhanced Oil Recovery Credit. Get form FTB 3546.
- High-Road Cannabis Tax Credit. Get form FTB 3820.
- Homeless Hiring Credit. Get form FTB 3831
- Natural Heritage Preservation Credit. Get form FTB 3503.
- New California Motion Picture and Television Production Credit. Get form FTB 3541.
- New Donated Fresh Fruits or Vegetables Credit. Get form FTB 3814.
- New Employment Credit. Get form FTB 3554.
- Pass-Through Entity Elective Tax Credit. The Pass-Through Entity Elective Tax Credit is not a pass-through item but should still be reported on Schedule K-1 (565), line 15f and attached schedule. Get form FTB 3804-CR.
- Prison Inmate Labor Credit. Get form FTB 3507.
- Program 3.0 Motion Picture and Television Production Credit. Get form FTB 3541.
- Research Credit. Get form FTB 3523.
- Soundstage Filming Credit. Get form FTB 3541.
- State Historic Rehabilitation Credit. Get form FTB 3835.

The passive activity limitations of IRC Section 469 may limit the amount of credits on line 15b, line 15c, line 15d, and line 15f. Line 15b, line 15c, and line 15d credits are related to the rental activities of the partnership. Line 15f credits are related to the trade or business activities of the partnership. In general, passive activity credits from passive activities are limited to tax attributable to passive activities for California purposes (R&TC Section 17561). Credits that may be limited under the passive activity credit rules include the following:

- Research credit
- Low-income housing credit

You may be able to use the low-income housing credit, and other credits generated from rental activities, against tax on other income. Get form FTB 3801-CR for more information.

The partnership can include on line 15f your distributive share of net income taxes paid to other states by the partnership. Subject to the limitations of R&TC Section 18006, partners may claim a credit against their individual tax for net income taxes paid by the partnership to another state. The amount of tax paid is required to be supported by a copy of the return filed with the other state and evidence of the payment of the tax. Get California Schedule S for more information.

Line 16

The information reported in box 16 of the federal Schedule K-1 (Form 1065), does not apply to California and therefore there is no line 16.

Alternative Minimum Tax (AMT) Items

Line 17a through Line 17f, column (d)

Use the information reported on line 17a through line 17f, column (d) as well as your adjustments and tax preference items from other sources to complete Schedule P (100, 100W, 540, 540NR, or 541), Alternative Minimum Tax and Credit Limitations. For more information, get the instructions for federal Schedule K-1 (Form 1065), box 17, Alternative minimum tax (AMT) items.

Tax-Exempt Income and Nondeductible Expenses

Line 18a through Line 18c – Tax-exempt Income and Nondeductible Expenses

Get the instructions for federal Schedule K-1 (Form 1065), box 18. The partnership should give you a description and the amount of your share for each item applicable to California in this category.

Distributions

Line 19a and Line 19b – Distributions

Get the instructions for federal Schedule K-1 (Form 1065), box 19.

Other Information

Line 20a and Line 20b – Investment Income and Investment Expenses

If the partnership paid or accrued interest on debts it incurred to buy or hold investment property, the amount of interest you can deduct may be limited.

For more information and the special provisions that apply to investment interest expense, get form FTB 3526, and federal Pub. 550.

Use the column (d) amounts to determine the amount to enter on form FTB 3526, line 1.

The amounts shown on line 20a and line 20b include only investment income and expenses included on lines 5, 6, 7, 11, and 13e of this Schedule K-1 (565). The partnership should attach a schedule that shows the amount of any investment income and expenses included in any other lines of this Schedule K-1 (565). Use these amounts, if any, to adjust line 20a and line 20b to determine your total investment income and total investment expenses from this partnership.

Combine these totals with investment income and expenses from all other sources to determine the amount to enter on form FTB 3526, line 1.

Line 20c – Other Information

For credit recaptures attach a schedule that includes the credit recapture, names, and amounts.

The partnership will provide supplemental information required to be reported to you on this line. If the partnership is claiming tax benefits from an Enterprise Zone (EZ), Local Agency Military Base Recovery Area (LAMBRA), Manufacturing Enhancement Area (MEA), or Targeted Tax Area (TTA), it will give you the business income and business capital gains and losses apportioned to the EZ, LAMBRA, MEA, or TTA on this line. Get form FTB 3805Z, Enterprise Zone Deduction and Credit Summary; form FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary; form FTB 3808, Manufacturing Enhancement Area Credit Summary; or form FTB 3809, Targeted Tax Area Deduction and Credit Summary to claim any applicable credit.

The partnership may have provided a schedule with amounts showing your proportionate interest in the partnership's aggregate gross receipts, less returns and allowances. A qualified taxpayer may exclude income, positive and negative adjustments, and preference items attributable to any trade or business from alternative minimum taxable income.

A "qualified taxpayer" means a taxpayer that meets both of the following:

- Is the owner of, or has an ownership interest in a trade or business.
- Has aggregate gross receipts, less returns and allowances, of less than \$1,000,000 during the taxable year from all trades or businesses in which the taxpayer is an owner or has an ownership interest. In the case of an ownership interest, you should include only your proportional share of aggregate gross receipts of any trade or business from a partnership, LLC, S corporation, regulated investment company (RIC), real estate investment trust (REIT), or real estate mortgage investment conduit (REMIC).

You need to add your share of the aggregate gross receipts from this partnership to your aggregate gross receipts from all other trades or businesses in which you hold an interest to determine if you are a qualified taxpayer.

For purposes of R&TC Section 17062(b)(4), "aggregate gross receipts, less returns and allowances" means the sum of the following:

- The gross receipts of the trades or businesses which the taxpayer owns.
- The proportionate interest of the gross receipts of the trades or businesses which the taxpayer owns.
- The proportionate interest of pass-through entities gross receipts in which the taxpayer holds an interest.

Gross Receipts – R&TC Section 25120 was amended to add the definition of gross receipts. "Gross receipts" means the gross amounts realized (the sum of money and the fair market value of other property or services received) on:

- The sale or exchange of property,
- The performance of services, or
- The use of property or capital (including rents, royalties, interest, and dividends) in a transaction that produces business income, in which the income, gain, or loss is recognized (or would be recognized if the transaction were in the United States) under the IRC.

Amounts realized on the sale or exchange of property shall not be reduced by the cost of goods sold or the basis of property sold.

For a complete definition of “gross receipts”, refer to R&TC Section 25120(f) or go to ftb.ca.gov and search for **25120**.

For purposes of this section, “pass-through entity” means a partnership (as defined by R&TC Section 17008), an S corporation, a RIC, a REIT, and a REMIC. See R&TC Section 17062 for more information.

The pro-rata share of gain or loss on property subject to the IRC Section 179 expense deduction recapture should be reported on Schedule K-1 (565) as other information. Follow the instructions on the federal Form 4797 and federal Schedule K-1 (Form 1065) for the reporting requirements.

Get FTB Pub. 1001 for a listing of items of nonconformity for individuals.

Line 21 – More than one activity for at-risk purposes

When the partnership has more than one activity for at-risk purposes, it will check this box and attach a statement. For more information, get the instructions for federal Schedule K-1 (Form 1065), line 22.

Line 22 – More than one activity for passive activity purposes

When the partnership has more than one activity for passive activity purposes, it will check this box and attach a statement. For more information, get the instructions for federal Schedule K-1 (Form 1065), line 23.

Other Partner Information

Table 1 – Partner’s Share of Nonbusiness Income from Intangibles (source of income is dependent on residence or commercial domicile of the partner)

The income data contained in Table 1 is not reflected in column (e) of Schedule K-1 (565) because the source of such income must be determined at the partner level. The partner must make a determination whether the nonbusiness intangible income item is from a California source. For more information, see General Information D, Nonbusiness Income, and General Information E, Unitary Partners.

Table 2 – Partner’s Share of Distributive Items

The Partnership will complete Table 2, Parts A to C for unitary partners and Table 2, Part C for all non-unitary partners. Table 2 does not need to be completed for non-unitary individuals. The final determination of unity is made at the partner level.

If the partner and the partnership are engaged in a single unitary business or if the partnership is uncertain as to whether it is unitary with the partner, the partnership will furnish the information in Table 2.

The partner’s share of the partnership’s business income is entered on Table 2, Part A. The partner then adds that income to its own business income and apportions the combined business income using the revised factor described below.

Table 2, Part B reflects the partner’s share of nonbusiness income from real and tangible property wholly sourced or allocable to California. This is added to apportioned business income and nonbusiness intangible income allocated to California and becomes a part of California taxable income. For more information, see R&TC Sections 25124 and 25125, and Cal. Code Regs., tit. 18 sections 17951-1, 17951-2, and 17951-3.

The partner’s share of the partnership’s property, payroll, and sales factors is in Table 2, Part C. The partner combines its apportionment factors with the apportionment factors of the partnership and uses the revised factor to compute its business income apportioned to California. For more information see General Information D, Nonbusiness Income, and General Information E, Unitary Partners.

The partnership will complete Table 2, Part C to report the partner’s distributive share of property, payroll and sales **Total within California**.

Partners will use Table 2, Part C to determine if they meet threshold amounts of California property, payroll and sales.

R&TC Section 23101 provides that a taxpayer is doing business if it actively engages in any transaction for the purpose of financial or pecuniary gain or profit in California or if **any** of the following conditions are satisfied:

- The taxpayer is organized or commercially domiciled in California.
- The sales, as defined in R&TC Section 25120(e) or (f), of the taxpayer in California, including sales by the taxpayer’s agents and independent contractors, exceed the lesser of \$711,538 or 25% of the taxpayer’s total sales.
- The real property and tangible personal property of the taxpayer in California exceed the lesser of \$71,154 or 25% of the taxpayer’s total real property and tangible personal property.
- The amount paid in California by the taxpayer for compensation, as defined in R&TC Section 25120(c), exceeds the lesser of \$71,154 or 25% of the total compensation paid by the taxpayer.

If the partner’s distributive share of property, payroll, or sales in California, when combined with the partner’s property, payroll, or sales in California from other pass-through entities or its own activities, exceeds the threshold amounts set forth in R&TC Section 23101, the partner is “doing business” in California and must file a return and pay all applicable taxes, including the minimum franchise tax if the partner is a corporation or the applicable annual tax if the partner is a business entity that is required to pay an annual tax.

For more information, see R&TC Section 23101 or go to ftb.ca.gov and search for **doing business**.

Table 3 – Partner’s share of cost of goods sold, deductions, and rental income.

Table 3 is completed for partners that are partnerships or LLCs taxed as partnerships. The information on Table 3 is used by LLCs that file Form 568, Limited Liability Company Return of Income, to determine their total income.

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