

SCHEDULE Q
(Form 1066)

(Rev. October 2003)

Department of the Treasury
Internal Revenue Service

Quarterly Notice to Residual Interest Holder of
REMIC Taxable Income or Net Loss Allocation

For calendar quarter ended _____, 20 _____

OMB No. 1545-1014

(See instructions on page 2.)

Residual interest holder's identifying number	REMIC's identifying number
Residual interest holder's name, address, and ZIP code	REMIC's name, address, and ZIP code

- A** What type of entity is this residual interest holder (see Form 1066 instructions)? ▶ _____
- B** Enter residual interest holder's percentage of ownership of all residual interests:
- 1 Before change ▶ _____ %
- 2 End of quarter ▶ _____ %
- C** Enter the percentage of the REMIC's assets for the quarter represented by each of the following:
- 1 Real estate assets under section 856(c)(5)(B) ▶ _____ %
- 2 Assets described in section 7701(a)(19)(C) (relating to the definition of a domestic building and loan association) ▶ _____ %
- D** Internal Revenue Service Center where REMIC files return ▶ _____
- E** Check applicable boxes: (1) Final Schedule Q (2) Amended Schedule Q

F Reconciliation of residual interest holder's capital account

(a) Capital account at beginning of quarter	(b) Capital contributed during quarter	(c) Taxable income (net loss) from line 1b below	(d) Nontaxable income	(e) Unallowable deductions	(f) Withdrawals and distributions	(g) Capital account at end of quarter (combine cols. (a) through (f))
				()	()	

Caution: See instructions on page 2 before entering information from this schedule on your tax return.

1a Taxable income (net loss) of the REMIC for the calendar quarter				
b Your share of the taxable income (net loss) for the calendar quarter				
2a Sum of the daily accruals under section 860E for all residual interests for the calendar quarter				
b Sum of the daily accruals under section 860E for your interest for the calendar quarter				
c Excess inclusion for the calendar quarter for your residual interest (subtract line 2b from line 1b, but do not enter less than zero)				
3 Residual interest holders who are individuals or other pass-through interest holders (see Form 1066 instructions). Not required to be completed for other entities.				
a Section 212 expenses of the REMIC for the calendar quarter				
b Your share of section 212 expenses for the calendar quarter. (If you are an individual, this amount must be included in gross income in addition to the amount shown on line 1b. See instructions on page 2 for treatment of this amount as a miscellaneous itemized deduction.)				

General Instructions

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

Purpose of Schedule

The real estate mortgage investment conduit (REMIC) uses Schedule Q to notify you of your share of the REMIC's quarterly taxable income (or net loss), the excess inclusion with respect to your interest, and your share of the REMIC's section 212 expenses for the quarter.

Keep your copy of this schedule for your records. Do not file it with your tax return.

Tax treatment of REMIC items. The REMIC is not subject to income tax (except on net income from prohibited transactions, net income from foreclosure property, and contributions made after the startup day). However, you are liable for tax on your share of the REMIC's taxable income, whether or not distributed, and you must include your share on your income tax return. Generally, you must report REMIC items shown on your Schedule Q (and any attached schedules) or similar statement consistent with the way the REMIC treated the items on the return it filed. This rule does not apply if your REMIC falls within the "small REMIC" exception and does not elect to be subject to the consolidated entity-level audit procedures.

If your treatment on your original or amended return is (or may be) inconsistent with the REMIC's treatment, or if the REMIC was required to file but has not filed a return, you must file **Form 8082**, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR), with your original or amended return to identify and explain the inconsistency (or to note that a REMIC return has not been filed). See sections 860F(e) and 6222 for the inconsistent treatment rules.

Errors. If you believe the REMIC has made an error on your Schedule Q, notify the REMIC and ask for a corrected Schedule Q. Do not change any items on your copy. Be sure that the REMIC sends a copy of the corrected Schedule Q to the IRS. If you are unable to reach an agreement with the REMIC about the inconsistency, you must file Form 8082 as explained in the preceding paragraph.

Limitation on losses. Generally, you may not claim your share of the quarterly net loss from a REMIC that is greater than the adjusted basis of your residual interest in the REMIC at the end of the calendar quarter (determined without regard to your share of the net loss of the REMIC for that quarter). Any loss disallowed because it exceeds your adjusted basis is treated as incurred by the REMIC in the following quarter, but only for the purpose of offsetting your share of REMIC taxable income for that quarter.

Items that increase your basis are:

1. Money and your adjusted basis in property contributed to the REMIC.
2. Your share of the REMIC's taxable income.
3. Any income reported under section 860F(b)(1)(C)(ii).

Items that decrease your basis are:

1. Money and the fair market value of property distributed to you.
2. Your share of the REMIC's losses.
3. Any deduction claimed under section 860F(b)(1)(D)(ii).

Passive activity limitations under section 469. Amounts includible in income (or deductible as a loss) by a residual interest holder are treated as portfolio income (loss). Such income (or loss) is not taken into account in determining the loss from a passive activity under section 469.

Excise taxes on excess inclusions of REMIC residual interests. Use **Form 8831**, Excise Taxes on Excess Inclusions of REMIC Residual Interests, to report and pay (a) the excise tax due under section 860E(e)(1) if you transferred a residual interest in a REMIC to a disqualified organization; (b) the amount due under Regulations section 1.860E-2(a)(7)(ii) if the tax under section 860E(e)(1) is to be waived; or (c) the excise tax due under section 860E(e)(6) if the residual interest holder is a pass-through entity with interests held by a disqualified organization. See Form 8831 for more details and for definitions of "disqualified organization" and "pass-through entity."

Specific Instructions

Item C—REMIC assets. This information is provided only for the use of a residual interest holder such as a real estate investment trust or domestic building and loan association that needs to know the composition of the REMIC's underlying assets.

Calendar year taxpayers and fiscal year taxpayers whose tax years end with a calendar quarter

Line 1b—Your share of the taxable income (net loss) for the calendar quarter. If you are an individual, you must report, as ordinary income or loss, the total of the amounts shown on line 1b of Schedule Q for each quarter included in your tax year, after applying any basis limitations, on Schedule E (Form 1040), Part IV, column (d). If you are not an individual, report the amounts as instructed on your tax return.

Line 2c—Excess inclusion for the calendar quarter for your residual interest. The total of the amounts shown on line 2c for all quarters included in your tax year is the **smallest** amount you may report for that year as your:

- Taxable income or
- Alternative minimum taxable income (AMTI).

Except where necessary or appropriate to prevent avoidance of Federal income tax the preceding sentence does not apply to a financial institution entitled to relief under section 1616(c)(4) of the **Small Business Job Protection Act of 1996**, Pub. Law No. 104-188, 110 Stat. 1755 (August 20, 1996) (the Act). That provision generally allows certain financial institutions to continue using the rules of section 860E(a)(2) prior to its amendment by the Act. (Special rules apply to members of affiliated groups filing consolidated returns and to which section 1616(c)(4) of the Act applies. See sections 860E(a)(3) and (4) prior to their amendment by the Act.) The line 2c amount is treated as "unrelated business taxable income" if you are an exempt organization subject to the unrelated business tax under section 511. If you are an individual, enter this amount as an item of information on Schedule E (Form 1040), Part IV, column (c). If you must also report this amount as your taxable income (or AMTI), enter the amount shown on line 2c on the taxable income (or AMTI) line of your return and write "Sch. Q" on the dotted line to the left of the entry space.

Line 3b—Your share of section 212 expenses for the calendar quarter. If you are an individual or other pass-through interest holder (as defined in Temporary Regulations section 1.67-3T), you must report as ordinary income the total of the amounts shown on line 3b of Schedule Q for each quarter included in your tax year. This amount must be reported in addition to your share of taxable income (net loss) determined above. If you are an individual, report this total on Schedule E (Form 1040), Part IV, column (e). If you are not an individual, report the amounts as instructed on your tax return.

If you are an individual and itemize your deductions on your return, you may be able to deduct the total as a miscellaneous itemized deduction. It should be included with the other miscellaneous deductions that are subject to the 2% of adjusted gross income limit.

Fiscal year taxpayers whose tax years do not end with a calendar quarter

The same rules explained above for calendar year taxpayers apply, except that you must figure the amount to report from lines 1b, 2c, and 3b based on your tax year. For each calendar quarter that overlaps the beginning or end of your tax year, divide the amount shown on line 1a, 2a, or 3a (whichever is applicable) by the number of days in that quarter. Multiply the result by your percentage of ownership of all residual interests for each day of your tax year included in that quarter.

Line 1b. Total the daily amounts of taxable income (net loss) for the overlapping quarters. Add these amounts to the amounts shown on line 1b for the full quarters included in your tax year. Report the resulting income or loss in the same manner as explained above for calendar year taxpayers.

Line 2c. Total the daily amounts for the overlapping quarters. Subtract this total from your share of the taxable income for the part of the quarter included in your tax year, as previously figured. Add the resulting amounts for the overlapping quarters to the amounts shown on line 2c for the full quarters included in your tax year and report it in the same manner as explained above for calendar year taxpayers.

Line 3b. Total the daily amounts of section 212 expenses for the overlapping quarters. Add these amounts to the amounts shown on line 3b for the full quarters included in your tax year. Report the resulting amount in the same manner as explained above for calendar year taxpayers.

